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**INSTITUTIONAL ENVIRONMENT INFLUENCE ON INTERNATIONAL
COMPANIES' PERFORMANCE.**

Case studies of Finnish cleantech enterprises in Russia.

Master's Thesis in
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Purpose – There was the gap, revealed in the literature, in the institutional environment analysis of the Russian market and its impact on the Finnish companies' performance within the cleantech industry. The main purpose of the research was to describe and explore the concept of institutional theory with its adaption to the Russian market and analyze the impact of the environment on the Finnish cleantech companies, presented in Russia.

Design/methodology/approach – Adbuctive approach was chosen for the study, which permitted to create conceptual model on the basis of literature review as well as further modification of it after the obtained results analysis. Data was collected by the qualitative method with multiple case studies strategy application.

Key findings – Restraining influence of the Russian institutional environment on Finnish companies' performance has been revealed. At the same time, tolerant attitude of Finnish companies to the Russian market has been identified with existed interest among the companies in the neighboring emerging market.

Research limitations/implications – The research is limited conceptually, methodologically and empirically. The first limitation relates to the chosen theory. The second one limits the study by the chosen qualitative method, while the third limit deals with the multi-case studies strategy and analysis of four companies.

Value of the research – Analysis of the Russian institutions and main constraints of the market adds value to the existed literature, related to the Russian market as well as provides useful information for Finnish cleantech companies, interested in the Russian market.

KEYWORDS: institutional theory, company performance, cleantech, emerging market

1. INTRODUCTION

Within the following chapter some core issues of the research will be presented. There are study background where explanation of the current situation in the chosen area are presented; research gap, question and objectives with raised main research question to be answered within the whole study through achieving announced objectives as well as explanation of the reason, why the study is relevant; definitions of the main concepts, which are frequently used within the research, and structure of the work described in the introductory chapter.

1.1. Study background

The notion of emerging countries and increased interest to these economies has been discussed among scholars and international organizations within several recent decades. Financial crisis in 2008-2009 illustrated again that one of the main competitive advantages of these countries is their relatively fast growing rate, which facilitates recovery from global economic decline more rapid, comparing with developed block of countries. According to Global Competitiveness Report (2014-2015), emerging countries even grew by 3 percent in 2009, while combined GDP for developed countries decreased by the same percentage. Additionally, annual growth rate during the period from 2007 to 2013, covered three stages – pre-crisis, two years of depression and then recovery – was 5,9 percent, which is higher by five percentage point than developed economies in the world. However, these rapidly growing economies cannot exceed advanced economies due to the lack of stable institutional environment and developed financial market - 97 and 110 ranks respectively for Russia in Global Competitiveness Index (GCI); insufficient technological basis and high level education – 83 and 65 ranks for Chinese economy; low goods market efficiency - 123 rank for Brazil and unstable macroeconomic situation – 101 rank for India. At the same time, factors mentioned above enable Western countries as well as the USA and Asian developed economies keep constantly high positions in ratings of different

international organizations such as The World Bank, OECD, International Monetary Fund, the World Economic Forum and etc, whose reports will be used within the study. Some emerging countries attract international giants by market size and natural resources availability, other obtain cheap labor force and artificially created conditions for business. Although growth rate remains rather high for developing countries nowadays, decline has also been reported, which could prove the requirement for structural reform within economies in order to proceed with economic development. (Global Competitiveness Report 2014-2015.)

Another issue relates to institutional environment and institutional theory appliance to this study. It is worth mentioning that based on initial literature review, there is the fact revealed that institutional theory have become widely-accepted among scholars recently, providing combination of previously prevailing perspectives such as transaction cost theory, OLI-paradigm, three-lenses approach and cultural distance consideration (Tihanyi, Devinney & Pedersen 2012; Peng, Li Sun, Pinkham & Chen 2009; Brothers 2002; Dunning & Lundan 2008; Arslan 2010). From the one hand, institutional environment has not already taken as a given background and focus has been shifted to it as an individually important determinant factor (Oliver 1997; Peng 2009). From the other hand, according to Arslan (2010:109) institutional theory is applicable for international business studies owing to immobile formal rules of doing business such as legislation, administrative factors and political atmosphere, which influence both entry mode and long-term strategies of companies.

Institutional theory also suggests internal institutional environment as well as external one, consequently, providing opportunity of multi-level analysis of the environment, which determines strategy and performance of companies (Kostova, Roth & Dacin 2008; Peng & Khoury 2009; Oliver 1991). Having assumed that internal institutional environment, consisting of organizational rules, reporting standards, values and beliefs remains stable regardless of foreign countries presence, an external environment is volatile from country

to country, which has an impact on enterprises performance and then would become the main focus of the study.

Being holistic system, institutions in a country are interconnected and then changes in one part of them could have an impact on the whole system, which corresponds with the intent of institutional theory to pursue open system approach (Scott 2003:27; Arslan 2010:109). Institutions attract interest not only among researcher, but also within international organizations, being one of the twelve pillars for evaluating country competitiveness (Global Competitiveness Report 2014-2015). Although the emphasize is made upon only formal institutions such as legal, administrative framework as well as governmental actions towards market exposure to foreign companies, it could be explained by requirement of strict evaluation of institutions in order to provide fair background for index labeling, which is more problematic in terms of informal institutions. Overall, institutions matter, becoming one of the core issues for discussion on different levels – both theoretical and practical – which encourages appliance of institutional theory for the study, increasing relevance of the research.

The third aspect of the study background considers industry to analyze. Within this study cleantech industry companies, having established in Finland, would be interviewed in terms of their experience from and impression about Russian market. There are several reasons of particular sector choice. First of all, according to Cleantech Finland (2015), cleaning technologies (cleantech) is one of the strongest business areas in Finland with 25.8 billion euro turnover in 2013, which illustrates 5 % growth for the industry; over one third of public investment is distributed to this sector, and around 50 000 people employed within the industry with 40 000 new employment places as a plan by 2020. Moreover, Finland economy accounts for over 1% share in global cleantech market, which makes it the leading nation in developing cleaning technologies over the globe, taking into account GDP and population of the country (Cleantech Finland 2015).

Therefore, there is the fact that the country illustrates prosperity in technologies, which enable saving energy and natural resources, processing innovation and solving

environmental challenges, crucial for today. Among the top markets for Finnish cleantech, Russia is put on the second place, which makes it possible to assume that collaboration between Finland and Russia in the chosen area is ongoing and perspective with wide interest of Finnish companies in Russian the market (Cleantech Finland 2015).

Additionally, it is worth to state that even though Russia has not shown such outstanding results in developing cleantech industries, there are several actions on the public level have been taken in order to promote development of the alternative energy sources and energy-efficiency technologies. First of all, development of alternative energy technologies is included in the innovation strategy of the Russian Federation, which is part of the strategic development plan of the country until 2020 (Innovation strategy of the Russian Federation 2020: 71). According to Decree № 449 about stimulating mechanism of renewable energy sources consumption, issued on 28th of May 2013, target value of energy consumption from renewable sources for 2010, 2015 and 2020 were stated with 1, 5 %, 2, 5% and 4, 5% respectively. Even though such estimation is rather low in comparison with European countries target values for alternative energy, the assumption about further development could be made (Russia Renewable Energy Program 2015).

1.2. Research gap, question and objective

First of all, it is necessary to explain the choice of countries to make the research on. In terms of Finnish side, it is logically to assume that being the student in Finland and originally Russian citizen, the author would prefer to conduct the research, applicable for these countries. Moreover, during two years of studying, the researcher has realized importance of energy sector in Finland and its special development and promotion in the region, where home University is located. Additionally, it became clear that due to the closed nature of the market or other influential factors, researches about Russian market within the chosen direction is quite limited. Based on literature review, it is possible to claim that even though Russia is mentioned in many research papers as one of the emerging

countries with high potential to grow, further examples and investigations are made on China, India, Brazil, South Africa and other developing countries examples, leaving Russian market underestimated and under researched. At the same time, being eastern neighbor of Finland and owing to historical background of communication between two countries, it is logical to consider Russian market as one of the target one for Finland.

From another perspective, Finland with its experience in cleantech industry and tolerant attitude to the Russian market regardless of external circumstances becomes the ideal partner for the Russian Federation. Even though there are several research centers in Finland, dealing with Baltic countries studies, most of them are provided in Finnish, which reduces applicability among wide range of companies, researchers and other agents. What is more important is special interest to the cleantech industry within the Russian context. Because of the fact that this business sector is rather new in Russia, there could be a lot of weaknesses and areas for improvement, which are difficult to consider from scratch. It could be more convenient for Finnish companies to have research about the Russian market with analysis of combined sources of information.

The main purpose of the study is to reveal current business environment within the institutional theory, where Finnish companies operate, and analyze institutional impact on their decision to enter the market, develop there and collaborate with local partners. Based on the recent geopolitical situation with Ukrainian crisis, there were number of sanctions imposed from both Western countries and the Russian Federation, which has negative effect on both sides like any decision, taken on the macroeconomic level in the era of globalization. Even though sanctions are not distributed on the industry, chosen for analysis, openness of the Russian market suffers in general, which hinders smooth collaboration with foreign countries, including Finland as one of them. Institutional environment in emerging countries is more volatile and unpredictable even during the period without heavy foreign-policy changes, not to mention crisis period of time. Then, the research is aiming at providing current institutional environment analysis, bearing in mind deviation due to geopolitical factors and, consequently, perspective view on the market,

which would become meaningful for all types of companies: both for those, which are going to enter the market and also for enterprises, which temporary terminate operation in Russia, but probably would prefer to recover collaboration after confusion about the market ends.

When the purpose is defined, it is worth to state research question and objectives, which are posed by the author in order to achieve worth results. Then, the research question of the study is:

How institutional environment of the Russian market affects performance of Finnish companies within the cleantech industry?

Within the study, main objectives are stated, which are in line with the research question. Objectives present step-by-step overview of the conducted research in order to simplify understanding for readers and monitoring the study flow for the researcher. The list of objectives for the study is presented below:

1. Conduct literature review of the researches, related to the topic of institutional theory;
2. Create conceptual framework, applicable for the present research. Due to the fact that institutional theory is considered as the main one for the research, conceptual model should comprise main issues of chosen theoretical perspective.
3. Provide overview of the Russian market as well as cleantech industry;
4. Specify the proposed conceptual framework with precise elements of the analysis, applicable for the Russian institutional environment;
5. Analyze the impact of institutional environment and examine relevance of the proposed conceptual model by qualitative research, made through the interviews with the case companies,;
6. Provide findings and modification of the framework on the basis of results, if it would be necessary to do.

Objectives would be reached via extensive literature review and different sources of information analysis along with interviews with companies' managers, presenting on the Russian market and having experience in working there.

1.3. Definitions of key concepts

Institutions: there is the classical definition of institutions, underpinned most of the studies in institutional theory, is adapted for the research. Institutions are 'the humanly devised constraints that structure human interaction' or in other more simple way it is 'rules of the game' (North 1990:3). Institutions consist of two broad parts: formal constraints, combining rules, laws and other written regulations, and informal ones such as norms of behavior, conventions and self-imposed codes of conduct. (North 1990:3; Peng, Wang & Jiang 2008: 922).

Emerging countries: Even though there is the variety of different approaches to define emerging countries, only several of them are widely used within the study. Broad definition of emerging markets as 'countries undergoing fast-paced turbulent change as a result of economic liberalization, rapid industrialization, and increased integration into the global economy' is proposed by Marquis & Raynard (2014:4). Additionally, Peng (2003: 276) described emerging countries as ones, which are currently moving from relation-based to rule-based economies, i.e. countries, aiming at precise impersonal institutions predominance rather than informal relationships. Another definition was given by Hoskisson, Eden, Lau & Wright (2000:249) as 'low-income, rapid-growth countries using economic liberalization as their primarily engine of growth'. There are approaches, elaborated by International Monetary Fund (IMF), World Bank and United Nations. The former is based on evaluation of different indexes such as GDP-per capital level, export diversification and integration into the global financial system. The World Bank uses Gross National Income for making differentiation among countries, while United Nations developed classification, which is used as a framework for statistics collection and analysis.

Overall, these and other definitions of the emerging economies would be used within the study as well as synonym as developing countries and concept of transition economies. The latter is defined by Peng (2003:276) as a subset of emerging one and related to markets with strongly pronounced institutional transition, though implemented in different ways. Countries of East Asia, Central and Eastern Europe as well as the former Soviet Union states with previous socialism dominance are pertained to the block of transition economies (Peng 2003: 276).

Performance: this concept could be treated depending on the aim of research as there is no clear definition among scholars. Performance could be measured as met criteria of financial target values such as return on investment, sales growth and etc. or non-financial, more subjective measures, for instance, market share, shareholder satisfaction and so on. Generally speaking, with lack of definition of effective company performance, this concept could vary in accordance with research purpose and objectives of study (Ittner 2008: 261-262; Hoskisson et al. 2000:258-259). In the following study the author uses this concept as the synonym of ‘doing business’, which means performance in the market is perceived in terms of initial stage and further development activities.

Cleantech: According to Cleantech Finland (2015), ‘cleantech’ means two issues mix: clean + technologies, which combines technology, services, process innovation and other product and services, which decrease environmental pollution and save energy and natural resources through development of alternative source of energy and efficient technologies of energy consumption. Generally speaking, cleantech deals with all kind of environmentally-friendly solution for both business and individuals.

1.4. Structure of the study

The following research consists of broad three parts, with several chapters in each of them. The first part introduces research purpose as well as research question with objectives to

reach. Moreover, background of the study is presented in order to illustrate relevance of the research and its` practical implication in filling the gap, existed in the theory. Key concepts are defined in the introductory part as well.

Second part of the study comprises of two chapters – chapter 2 and 3. The former presents literature review and discussion of main concepts of institutional theory. Furthermore, it summarized by conceptual framework, created for the study on the basis of critically analyzed literature. The latter applies the framework in the reality of Russian market, i.e. each part of the model is separately discussed in line with institutional environment of the market. Then, the conceptual framework is supplemented by specific elements, retrieved from the Russian market analysis, which would be considered in the empirical part.

The third section of the study relates to empirical research and examining of model in the reality through collected data and its analysis. Chapter 4 describes methodology of the study with its main aspects such as research approach, method, strategy, and data collection technique. Then, results and findings of the empirical part are presented in the next chapter, where case companies are shown as well as results of the interviews, according to the framework elements, are depicted. The last chapter of the paper represents conclusion, which is made by the author, based on the received results. Moreover, limitation of the study as well as its practical implication and suggestions for future studies are given within the same chapter. The list of references and appendixes could be found in the end of the paper.

2. INSTITUTIONAL THEORY AND ITS APPLICATION TO INTERNATIONAL BUSINESS

In the following chapter there are main definitions and discussion about institutional theory are provided with further analysis of its applicability to the current international business environment. There are seven subheadings of the chapter; each of them is concerned with specific part of the institutional approach. Starting from the general overview of the theory and its extension, it comes into details with discussion of institutional framework components, which could be included into the conceptual framework. Based on the literature review of existing theoretical frameworks, there is the conceptual model, applicable for the Master`s thesis research, is presented in the closing part of this chapter.

2.1. Institutional theory and its role in international business

Institutional theory is one of the most applicable theories, currently discussed by scholars (Tihanyi et al.2012; Peng & Khoury 2009). There are several reasons of such popularity in international business with one of them is increasing importance of emerging countries from the perspectives of either developed countries as a market for subsidiaries or developing countries as a separate player in the global market with established subsidiaries all over the globe. In other words, business nowadays has become truly international with growing number of MNEs and interest to specific characteristics of different locations, where subsidiaries are founded. What differentiates markets and becomes the reason of variable entry modes is institutional environment of countries, which predetermines usually regulation, policy and informal relationship, utilized in a country. (Tihanyi et al. 2012: 33-36.) Furthermore, it seems to be reasonably stated that institutional theory has combined several previous approaches in the area of international business and proposes now the most current and applicable view to managing operation globally. There are some examples of theories, which are slightly left behind today due to the evolution of institutional

philosophy among researches with transaction cost theory, OLI-paradigm, three-legged theory as some of them, being summarized by the institutional theory.

In terms of three-lenses of strategy, known as industry-based, resource-based and institutional-based or strategy tripod, widely applied in strategic management, Peng (2009) states that institutional-based view has become the most important and viable part among other as it enables consideration of context, which was missing for two previously dominant perspectives. Being proposed by Porter (1980), industry-based view made the impact on competition and competitive advantages/forces, which determine the strategy of companies, while lacking the consideration of history and institutions. The second phase of strategy tripod was proposed by Barney (1991), which is known today as resource-based view. Likewise, this philosophy was criticized by the lack of attention to the context, which could convert valuable and rare resources into impracticable ones (Oliver 1997; Brouthers, Brouthers & Werner 2008). Consequently, the emergence of institutional-based view several decades ago seems to be logical as it appeals to the context of the country as the core value and difference, which influences strategic decisions of enterprises. Institutions drew attention along with increasing power of emerging countries in the global economy by the reason of significant institutional difference and value there, comparing with developed countries, where strong institutions could be invisible and then underestimated. With the shifted focus from Triad – globally recognized block of developed economies of Japan, North America and Europe - to developing ones, institutional-based view enables scholars to analyze business environment according to the emerging markets features with considerable effect of institutions rather than competitive advantage or unique resources. (Peng et al. 2009)

Transactional cost theory is another philosophy, which leads researchers in analysis of market benefits, but also has been partly replaced or developed by institutional theory extension. Within the transaction cost theory the assumption of market structure and contracting is underlined (Peng & Meyer 2011: 37-40). It means that transaction costs, caused by operation abroad, depend on the market structure, which is imperfect by its

nature. The main goal of MNEs in this case is in proceeding the most efficient both entry mode and strategy, which decrease possible expenses. Transaction costs consist of negotiation, finding partner/developing network, monitoring activities abroad and other cost of operation, which are determined by unfamiliar business environment (Williamson 1985). At the same time, according to Brothers (2002: 203-204) there are several propositions within scholars to complement transaction cost theory with cultural and institutional factors, which have an influence on estimated transaction cost. It is worth to note that finding a partner and negotiation costs especially in emerging countries could be difficult to identify before entering the market.

Moreover, as Williamson states (1985), company could simply face with the problem of information asymmetry, when foreign company is deliberately provided with the limited amount of information from potential partner so that collaboration could work smoothly, but some drawbacks remain hidden until the contract is signed. In this case it is better to be aware of institutional variables, existed in the target market and that is the issue of institutional theory, which states that transaction is dependent on the way how it is governed (McGuinness & Demirbag 2012: 276). Based on the literature review, it is possible to suggest that in emerging countries, where informal institutions impact is more prominent due to the weak nature of formal constraints, transaction cost estimation seems to be a consequence, not a reason of chosen market, entry mode and strategy (Peng 2003:276; Rose, Lion & Ellstrand 2012: 182). It means that institutional features matter more as it significantly affects initial transaction costs as well as further expenses.

According to OLI-paradigm, company should get one of three advantages: ownership, location or internationalization, which determines international activities. At the same time in a volatile business environment with shifted focus among scholars to institutional theory, it is logically to suggest that OLI paradigm could be complemented or enlarged by institutional factor specification (Peng & Meyer 2011: 171-173). Dunning and Lundan (2008) presented the updated version of eclectic paradigm with explicit institutional environment integration to the OLI-theory. Even though institutions could be linked with

all three parts of eclectic paradigm, the most viable bond is found with location-advantage and economic growth with the latter being separately analyzed area (Peng & Meyer 2011:172). Formal institutions such as regulation, laws and conventions determine the ease of doing business and then benefits of location, while informal institutions could become the component of social capital, which has been defined by Brehm & Rahn (1997) as “the web of cooperative relationship between citizens”. At the same time, institutions differ among countries, being officially in one block of developed or developing economies, which determines location advantage and motives for entering particular market (Dunning & Lundan 2008: 585).

Transparent institutions, i.e. the formal one, could reduce uncertainty remarkably, whereas hidden circumstances as culture, behavior, norms and values are more questionable and difficult to perceive (McGuinness et al. 2012: 280). Generally speaking, the fact that the author of the initial theory suggests its revision in a period of time, adopting it to external changes in business environment and theoretical mainstream, justifies the matter of permanent improvement in a theory. According to general knowledge, every new approach or theory should complement and improve previously existed perspectives, then, it is logical that institutional theory as one of the leading ones today could be presented as the improved model of past theories. It explains the fact that many theories could be found underlining institutional framework, which belongs to consistent improvement of the theory.

2.1.1. Three approaches within the institutional theory

It is not surprisingly founded that due to the current popularity of institutional theory, there are several institutional approaches, recognized by scholars, which focus on specific parts of institutions and then apply it in a country-level or organization-level. It does not mean that there is the only, which is the most valuable and empirically tested than others, but it depends on the stated objectives of researchers or company. If the main question, consequent from the definition of institutions, is how institutions matters, then it is

important to understand that within international business in terms of theory, conceptualization of institutions is tightly linked with the effect it is exerted (Hotko & Pedersen 2012: 237). Hence it is worth to state the approach, which is going to be applied for the present research before conceptual framework is shown and described. There are three main approaches, being widely applicable in international business, with complementary focus on different components and sides of institutions. Each of them has evolved from different disciplines and has previously adopted models in an earlier stage of international business development. There are new institutional economics, new organizational institutionalism and comparative institutionalism (Hotko & Pedersen 2012: 251).

The first one has its roots in microeconomics and utilizes the North's definition of institutions. Additionally, it appeals to the link between well-established formal institutions and decreased level of uncertainty and reduced transaction cost (Delios & Henisz 2003: 1161-1162). Otherwise, activities of MNEs in a country with weak formal regulations, rules and laws could become unprofitable and too risky. Moreover, this approach is eager to analyze difference in MNEs' performance in emerging countries, since it is also affected by volatile formal institutions. As it deals with formal institutions, it is easier to measure the effectiveness and power of institutions, by using different indexes, announced by the World Bank, OECD or other organizations or agencies. Generally speaking, new institutional economics relies on country-level analysis of formal rules and regulations, perceiving informal institutions as a given constraint (Hotko & Pedersen 243).

The second approach – new organizational institutionalism – was mainly developed by Kostova and Roth (Kostova 1999; Kostova & Roth 2002) and has its background in sociology and organization theory. The pioneers in this approach are DiMaggio & Powell, who are often mentioned in literature, but mostly as a reference to the old organizational institutionalism model. The main focus in the new approach is made not on the country-level, but in organizational and practice level with perception of widely shared beliefs systems with institutions as a part of it. The system of beliefs becomes the part of three

pillars, proposed by Scott (1995): normative, cognitive and regulative. The most important definition, used within this approach relates to institutional and cultural difference, which as opposed to new institutional economics determines the effectiveness of MNEs performance abroad. Having wider view to institutions with perception of both formal institutions and informal ones, new organization institutionalism aims at explaining variety in organizational forms and practices in a way of entry mode strategy, internal work practices in CSR, human resources management, location strategy etc. among enterprises rather than country features. As this approach handles not only with regulative but also normative and cognitive dimensions of institutions, measurement is complicated by the lack of explicit data. Then, it is recommended to estimate institutional distance by measurement of different practices implementation within subsidiaries and collection of raw information, carefully collected. (Hotko & Pedersen 2012: 243-246.)

The third approach within institutional theory is comparative institutionalism, which is based on the political science and the sociology of work. The focus of this approach is in its name, because it is devoted to comparative analysis of home and host country institutions in order to analyze socio-economic differences between countries. The latter is provided as the core value and effect of MNEs strategy (Whitley 2005). According to this approach, institutions are influenced by culturally identified decisions and conditions, which differentiate countries and companies' performance there. One of the main proposition states that the dominant nature of institutions and level of their development mostly depends on the type of market economy, which in turn is influenced by the government role, financial system characteristics, values and norms, dominated in a work environment and personal development system, applied in a country-level (Whitley 1998:454-456). Having observed four issues, mentioned above, market economy varies from liberal to more coordinated ones. When it comes to measurement in the following approach, it is stated that detailed qualitative approach is commonly used among researchers. (Hotko & Pedersen 2012: 246-250.)

To sum up the discussion about institutional theory approaches, it is worthwhile to define, which of the following approaches would be used for the Master`s thesis research and state the reason for the particular choice. In order to include both formal and informal institutions in the coming theoretical model, it is better to have a mix of new institutional economics and new organizational institutionalism. Then county-level as well as organizational level analysis could be consolidated in a one framework. In term of comparative institutionalism, it is more applicable for comparative analysis of at least two countries and institutional framework, existed there. Since institutional framework of only one country – Russia – serves the purpose of the current research, it is not relevant to use comparative approach for the analysis. Moreover, in a general overview of the Russian market as well as characteristics of particular institutions, different indexes could be used to show country position according to global measurement. At the same time, as Russia is classified among emerging economies, where informal institutions could overweight formal it is difficult to overestimate the value of the former ones, which is analyzed under the normative and cognitive pillars, provided within the new organizational institutionalism.

2.2. The definition of institutions and links with economic development

Bearing in mind the assumption that operating MNEs in a country facilitate impressive economic development there with proposing new employment opportunities, valuable resources for local companies, investing in infrastructure and promoting directions for increasing living standards, there is a clear consequent question arises about incentives for MNEs to expand into particular country. As it widely discussed in the literature, there are institutions, composing institutional framework for enterprises, which currently plays crucial role for companies` strategy and investment. (Kedia, Clampit & Gaffney 2011: 177.)

2.2.1. The concept of institutions

Comparing three different views within the three-legged approach, namely resource-based, industry-based and institutional-based, it has been arguing for a long time that institutions are no longer background condition but separate direct factor, which determines strategy of MNEs (Oliver 1997; Peng 2009). The definition of institutions, given by North, is adopted for the paper as ‘the humanly devised constraints that structure human interaction’ that consist of the ‘formal constraints, informal constraints and their enforcement characteristics’ (North 1990: 3). Then institutional framework could be divided into two main parts – formal and informal – with the suggestion that the former one comprises of law, rules, economic and political systems and other strict limitation, while informal institutions are about cultural and ethical constraints, which are deeply rooted in a history and common mentality of a chosen country.

The risen importance of institutions is supported by Peng (2011: 37) and Hoskisson et al. (2000), who suggest that ‘rules of the game’ influence the decision-making process of MNEs even more than location or industry-based factors, as neither the former nor the latter can guarantee prosperity for enterprises as volatile or simply unknown institutional environment could negatively affect the whole strategy (Peng 2011:37). Scott (1995) complemented the institutional theory by distinguishing three lenses of institutions, i.e. “regulative, normative and cultural-cognitive pillars which provide stability and meaning to social behavior”. Table 1 shows the combined definitions, mentioned above with given examples of formal and informal institutions and relative recognition of three pillars.

Table 1. Dimensions of institutions (Peng et al.2011: 64).

Degree of formality (North 1990)	Examples	Supportive Pillars (Scott 1995)
Formal institutions	Laws	Regulative (coercive)
	Regulations	
	Rules	
Informal institutions	Norms	Normative
	Cultures	Cognitive
	Ethics	

2.2.2. Institutions and their links with economic development

According to Peng (2011: 55) there is the link not only between strategies and institutional framework in a country, but also for economic development of a country and existed institutions there. Figure 1 illustrates the model, proposed by Peng & Meyer (2011: 55), which would be described further.

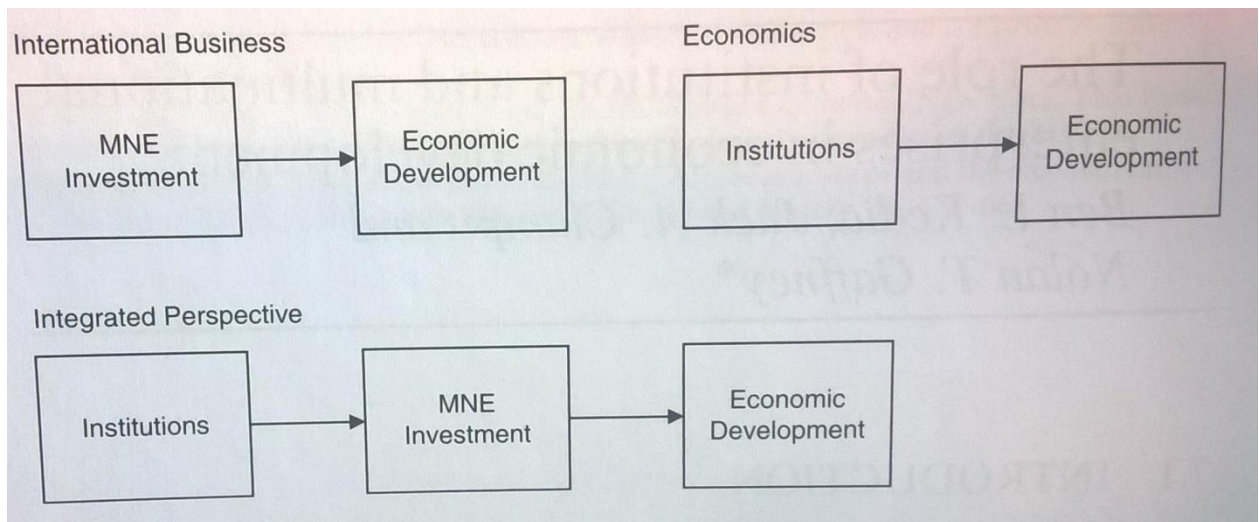


Figure 1. Links among MNEs, Institutions and Economic Development (Peng 2011:54-55).

The main suggestion pertains to the fact that human capital, natural or financial resources, some solid economic rates such as low inflation, stable exchange rate, economic growth, investment inflow etc., cannot provide permanent economic development for a country, but the way it is organized – the institutions, which are underlined – is the essential factor and clue to success. Illustrating strong both formal and informal institutions, the country ensures ease and stability of doing business, which in turn encourage international partnership and investment inflow. In it worth to note that formal as well as informal institutions build attractive business environment; then, it runs as a holistic system, when all parts are integrated. What is more, entering the market, companies bring new technologies, advanced working approach, investment to different sectors, new legislation adoption and etc., which inevitably lead to positive shift within institutional environment of the country. (Peng & Meyer 2011: 54-55; Mattsson & Salmi 2013:197.)

In the given above correlation there is the best justification of the fact that one of the main role of institutions is in reducing uncertainty, since having strong, stable and predictable institutions, entering companies could be relatively positive about long-term relationship with significant development plans (Peng & Meyer 2011:54-56; Scott 2008). Uncertainty could be reduced by two ways in accordance with formal and informal institutions. Then relational contracting and arm`s-length transaction are defined as two types of uncertainty reduction tools, which pertain to informal and formal institutions respectively (Peng & Meyer 2011:94). In case if a MNE overcomes all entry barriers and creates tight connection with the local company, then it both reduces transaction costs for foreign player and trigger development first within one company and then for the whole country as well.

It is crucial to understand that since institutions are analyzed not as a given background, companies should be prepared to the volatile nature of it, aiming at successful strategies. This fact is defined as an institutional transition, being ‘fundamental and comprehensive change introduced to the formal and informal rules of the game that affect organizations as players’ (Peng 2003: 275). Furthermore, institutions can be different among the

distinguished blocks of countries, i.e. developed economies and developing ones. It means that different approaches should be applied for two countries because of difference in institutional framework, even though these countries could be the part of the EU or Asian economy (Kedia et al. 2012: 179). It could be explained by the underlying nature of the institutions as society beliefs and norms, which are built within a long period of time, being influenced by the history as one of the crucial factors. Then even formal institutions are affected by cultural values and reflect cultural differences (North 2005). This concept is described by the institutional distance idea, which has something in common with cultural distance, but with institutional focus. Institutional distance is interpreted as a level of similar and different features within cognitive, regulative and normative pillars of two or more countries (Peng et al. 2009:113).

Taking into consideration this fact, it is important to state that informal institution, i.e. cultural background, values, beliefs, norms and other hidden factors should be examined in details before entering the market, since it is more influential part of institutional framework. Moreover, established formal institutions are reflection of cultural features and that is the reason, why any forcefully brought institutional changes, caused by MNEs operation or country goals, could be time-consuming and complicated to implement. Holding even weak institutions, country could face difficulties to change it because the whole system modification is followed, which usually is linked with different powerful parties. (Kedia et al. 2012: 194; Peng & Meyer 2011: 112-113.)

2.3. Formal institutions

Within formal institutions are usually distinguished political, legal, administrative and other transparent and more predictable “rules of the game”. At the same time, it is difficult to argue with the fact that state as a notion or government as an executive power underlies these formal rules since state seems to be the origin of rules. There are two possible theories of the state could be noted with one of them – contract theory – is based on the

principle of state being means of society wealth, while the second one – predatory theory – perceives the state as a group of powerful people, who aims at personal interest and wealth seeking (McGuinness & Demirbag 2012: 280). The author assumes that the first theory could be more effective within the society scope, while the second one illustrates opportunistic approach, which being underlined on the public level, is undoubtedly reflected on the whole institutional system. Following these two perspectives, North (1990) emphasizes the importance of property rights, which are widely discussed among researchers as part of the institutional framework, affecting MNEs strategy. Even though, it is fair to include property rights into the framework, the author of the thesis assumes that this issue arises mostly in case of equity-based entry modes and technologies, patent exchange, which could be hardly founded in the target market due to decreasing investment attractiveness of it. According to Hall and Gingerich (2004: 29) the economic growth rate is more remarkable in the country with precise coordination within the state rather than in markets with conditional and variable means of coordination. Then it is logical to consider that countries with high and steady growth rate are more attractive for investors, even though one can argue that it could take time to adapt to the local coordination system.

Discussing the importance of developing countries nowadays, it is worth mentioning another issue, which is common mostly for emerging economies owing to fragile formal institutions, and pertains to corruption with particular form of *blat* in Russia or *guanxi* in China. It is generally admitted that corruption deters operation of foreign investors in a country due to barriers such as increasing cost of doing business, red tape, bribes, lack of external institutions, for instance, consulting agencies and marketing supporting companies (McGuinness & Demirbag 2012: 284). In terms of transaction costs, which are associated with entering new market, corruption increases these expenditures, which are complicated to estimated before coming into the market. However, some authors reveal the fact that corruption could become even beneficial for companies if it is clear stated and coordinated in the market (Lee & Oh 2007: 98). Then, these costs are included in the estimated transaction costs and analyzed later among other as initially perceived expenditures. For achieving this type of corruption effect, it should be pervasive as well as centralized

significantly, making situation transparent for foreign companies (Lee & Oh 2007, McGuinness & Demirbag 2012).

Pervasiveness of corruption is distinguished by Rodriguez, Uhlenbruck & Eden (2005) and Doh et al. (2003) as one of the two dimensions of corruption with arbitrariness being the second one. According to scholars these two dimensions could differently influence the decision-making process of foreign companies. Pervasiveness of corruption could be also interpreted through social capital perspective with strong presence within personalized and impersonal types of information exchange in developing countries, according to North's (1990) suggestion. The third type of social transaction is defined as impersonal with third party involvement, which typical for more developed economies, where personalized relations means less in business environment comparing to transition economies (North 1990). Overall, based on the some researchers' findings, it is interesting to note that even detrimental concept of corruption could become manageable for foreign investors in case of awareness about it. Shleifer and Vishny (1998) differentiate corruption to two types – “helping hand” and “grabbing hand” – where the former one could be even helpful for enterprises, which admit it and include to initial transaction cost as, for example, specific form of taxation, while the latter relates to more traditionally perceived highly bureaucratic and deterrent factor.

Natural theory of democracy suggests institutions, devoted to monitoring and maintaining freedom of expression, intellectual liberty and etc., which are understood as bureaucracy and corruption constraints. At the same time, the author of the thesis assumes that the ideal democracy existence is questionable since it is sometimes problematic not to overstep the limit between democracy and disorder. Then, some of the democratic institutions could suffer without sufficient development or even exploited for the benefit of corrupted authority. This is the problem, which arises within media, which apparently becomes dependent on the policy orientation rather than independent source of information (McGuinness & Demirbag 2012: 284-288). Democracy should evolve and then rely on transparent and fair legislation, which creates the formal framework for market agents`

performance. At the same time, it is tricky suggestion that democratic rules could be equal in all officially stated democratic countries due to logically perceived variations among countries. However, having increasing amount of MNEs as well as globalization boom, the importance of internationally accepted regulations has gained respectively. That is why there is plenty of documents, issued by world organizations such as the World Bank, OECD, UNCTAD etc., focused on clear formal framework creation for internationally presented companies so that global operation runs smoother.

Corruption could be also linked with the concept of liability of foreignness, which impedes foreign operation and creates problems of adaptation for international companies. Duanmu (2011) and Wu (2006) claim that foreign direct investment flow varies among countries following the dependence on corruption distance rather than cultural distance, suggested by Hofstede. Several authors state that in terms of foreign investment flow, psychic distance is more relevant than cultural distance. The former deals with experience of an enterprise in the particular market, which could overweight cultural distance. Moreover in case of huge market, both cultural difference among regions and volatile nature of culture should be taken into account. When it comes to the initial role of institutions – reduce uncertainty – the perception of existed corruption also could be treated and consequently, corruption distance matters, which in turn becomes clear for MNEs only after getting experience in a country and decreasing psychic distance between host and home countries. (McGuinness & Demirbag 2012: 289.)

There is another worth concept to discuss, applicable from the institutional theory perspective, which is called advantages of foreignness and presented as an alternative to well-known liability of foreigners. According to Shi & Hoskisson (2012) advantages of foreignness is evaluated as an intangible asset, which company receives by its international operation. It seems to be logical that companies experience different stages during operation abroad, which could be compared with the individuals, travelling abroad. The first period is usually connected with unknown and scary environment with unfamiliar institutions and norms of different culture. However, any individuals as well as companies

get used to new environment and find the way to obtain benefits from gained experience and knowledge. There is another possible way, when company could find new country as an encouragement for creativity and consequently possess the intangible asset, which several scholars call advantages of foreignness. Moreover, existed isomorphism between countries could make pressure for seemingly international performance, but truly foreign operation could inversely bring new opportunities for companies. Shi & Hoskisson (2012: 118) give an example of such situation, when companies, operating in two geographically close Canada and the USA would be less productive than Chinese company, entering American market. Furthermore, there is the benefit of first entrant, which company could use as the competitive advantage, getting the maximum from unexplored business climate and new culture operation. (Shi & Hoskisson 2012; Ghemawat 2007; Kostova, Roth & Dacin 2008.)

Entering new market, any company is immersed in the specific legislation framework, which determines activities inside the particular country. Both local and foreign enterprises operate in environment, restricted by law, though the former are usually more familiar with laws and regulation, applicable for the business in the country. Even though there are generally two legal systems – civil and common law – legislation isomorphism is not applicable for legitimacy and does not ease doing business procedures for foreign companies, working in new market, especially in the initial stage of penetration (Kotsova, Roth and Dacin 2008:1001). What is more important is legal certainty notion, proposed by Peng (2011: 50), which explains how transparent rules are explained, applicable to the business practices so that new players could easily find answer to any problematic issues. In terms of two mentioned above systems of law, it is more relevant to describe difference, applicable to business practices. As civil law system is based on the written laws and regulation, which determine juridical practices, business contract and other documents are usually strictly regulated, though are provided in a shorter way (Peng 2011: 47). By contrast, common law system relies on precedent law and usually detailed contracts and codes are created in order to avoid misunderstanding and fill the gap between existed precedents and possible unusual features, revealed for the business (Peng 2011:48). It is

also stated among scholars that legitimacy in the institutional theory pertains mostly to corporate governance and property rights areas.

There is another worth issue to present, which could be taken as consequence of weak legal framework. According to Karhunen & Ledyaeva (2012) there are two constraints – corruption and bureaucracy – existed in the market as interconnected factors. Each of them could be rooted either in the past or in the current undeveloped legislation with many gaps. Therefore, business operation could be under the pressure of ambiguous regulations, which trigger lots of inspection from the public level and time-consuming procedures to establish business in the market. Such reality is more applicable for the emerging countries, where legislation has never been perceived by the society as a solid protection mechanism, leaving many opportunities for businesses and authority to treat regulations differently, which cause lack of unified system. Bureaucracy quality has been included in the political risk, used by International Country Risk Guide, as one of the determinant of the institutional environment (Berggren, Bergh & Bjørnskov 2012:193). It is assumed that both corruption and bureaucracy risks could be like concrete measurement of the legislation system since existence of these two restraints within the institutions hinders business development and then, involved into the institutional environment. (Karhunen & Ledyaeva 2012; Berggren et al. 2012).

2.4. Informal institutions

Informal institutions are the second part of the institutional theory and environment, which is assessed on the country-level. In comparison with the formal ones, the difficulty of informal institutions is in their vague nature and hidden influence on the business area, even though this impact could play crucial role in successful firms' performance. According to North definition (1990) informal institutions are internally determined within the culture and underlined rules of behavior, social attitude, traditions and other norms. Peng (2012: 28) adapted the previous definition of informal institutions in a more

contemporary way by giving the example of norms and value, admitting significant impact of the culture on informal institutions as well as other scholars, who added value on the institutional theory development. Applying three pillars model, evolved by Scott (1995), both normative and cognitive pillars could be taken as two directions of informal institution. While the former evaluates the impact of shared beliefs and norms within one country on the target group reaction and behavior, the latter deals with unconscious expectation of right or wrong individual behavior or firms performance (Peng 2011: 28-29; Martinez & Williams 2012: 47).

Special interest to informal institutions is based on its nature and significant role in emerging countries, which have been attracting scholars as well as entrepreneurs from developed countries in the recent time. Estrin & Prevezer (2011: 41-42) suggest variable influence, which informal institutions could have on the formal ones and, consequently, on the whole institutional environment. Even though, the impact varies from one country to another and informal institutions could either improve or inhibit formal rules, its role cannot be underestimated and should be evaluated even more rigorous than written formal rules (Estrin & Prevezer 2011: 42). Moreover, there is the view that in countries, where formal institutions are underdeveloped and cannot provide suitable assistance in doing business, then informal institutions exceed the formal ones, becoming more vital to know and follow for foreign companies (Peng et al. 2008: 927).

Furthermore, informal institutions exist not only as separate part of institutional environment, but also within the link with formal institutions. According to the typology of Helmke and Levitsky (2003), the level of influence between informal and formal institutions is defined by the strength of the latter as well as goals of parties in both institutions parts. The last notion means that if goals are different, then informal institutions strongly affect formal ones, impeding proclaimed rules and regulations by inappropriate behavior of actors, who implement these rules in the reality. Thus it is crucial to be aware of situation on the market and what is more important is clear understanding of informal institutions, which could play more notable role in emerging countries. The ability to adjust

to new cultural and informal environment is defined by Peng (2011:88) as cultural intelligence and it is stated as one of the essential competences for foreign firms in order to succeed on the host country, though culture is proposed to be only one of the variables, but not the only influential ones. (Estrin & Prevezer 2001; Peng et al. 2008.)

There is also another interesting concept, which is called information asymmetry, is linked with informal institutions. Nowadays information is one of the most valuable and costly resources. Due to the fact that search of trustful information about the market and its driven forces could take both time and money, companies could add this type of expenses to transaction cost, which is well-known as a comparative measurement of markets for companies to choose. Thus, awareness of the particular market institutions and features is crucial for companies, though information availability depends also on institutional environment and the level of transparency, which is accepted inside the host country. Information asymmetry appears when local committed players are better informed than foreign partners, which could impede partnership and increase transaction cost for foreign party (Stevens & Shenkar 2012: 129). According to Mayer, Estrin & Peng (2009:63) institutions – either formal or informal – provide information about market, business environment and many relevant factors, which influence the decision-making process. Then, in case of weak formal rules, informal institutions could open boundaries of the country, by encouraging worth information flow, or hinder collaboration, providing restricted amount of information, driven by opportunistic goals, which is common practice for emerging countries (Meyer et al. 2009: 63).

Furthermore, it is important to understand that information asymmetry could be expressed in varieties of forms – from partner-related information to accounting reporting standards. In terms of the latter one, international financial reporting standards are eager to create unified rules of financial information disclosure so that such information becomes reliable and comparable for any international company (Picker, Leo, Loftus, Wise, Clark & Alfredson 2012). Thus, if there is the lack of strict formal regulation in the country, transparent for any international player, then informal institutions could become the only

tool to receive trustful information. Information would be analyzed within informal institutions, bearing in mind volatility of information and different sources of its disclosure. Based on the reviewed literature, the author of this study would prefer to analyze information separately within informal institutions. Although there is no considerable interest to this particular topic within researchers, but only referencing, there could become interesting results revealed, taking into account the target market of the current research.

2.5. Corporate governance

Corporate governance could be analyzed from the perspective of ownership strategy, property rights and their protection, and in terms of external communication of firms with potential investors – either local or foreign (Estrin & Prevezer 2001: 42). Due to the fact that the concept of property rights is more applicable in case of equity-based entry modes such as joint ventures or wholly-owned subsidiaries, it is worth to note in the beginning that corporate governance issues would be used in this study in a broader way. It pertains to impact, which governance manner could have on foreign companies' intent to heavily invest in the market through developing collaboration from representative or sales offices to solid form of market presence. The author of the thesis believes, that corporate governance is interconnected with other institutions and have deep roots in history and inherited challenges. Moreover, corporate governance as traditions of management and preconditions for investors' collaboration could affect remarkably attractiveness of the market and strategy of companies to work there.

Corporate governance is one of the twelve key standards, which are used by the Financial Stability Board. Its definition is included into the World Bank Group Report, related to the economic development and financial stability of a country (OECD principles 2004: 3). It is consequent from the fact that equal and harmonized corporate governance rules are eager to decrease the uncertainty for investors and then encourage them to enter the market. The latter fact is positively correlated with the economic development of the country, as direct

investment lead to country-level economic progress and transparency. According to the OECD Principles (2004: 11), the existence of effective corporate governance provides crucial confidence for market economy and, consequently, attracts foreign partners. Moreover, as corporate governance is not an arm's length issue since it is closely influenced by the legal, political and administrative institutions along with historical impact, this concept is worth to be added to the institutional framework for the current paper. It is probable to assume that the analysis of the corporate governance is applicable only in case of foreign direct investment in the form of joint ventures, for example, when interests of two parties are combined in one mutually established company. However the author suggests that it should be separately stated in the framework of institutional factors, as it has a huge impact on the foreign firm performance according to observed literature. This part of the conceptual framework could be examined later on the case studies, if it would be applicable to conduct.

It is worth to state that OECD Principles does not have strict force for implementation and presented as continuously evolving document. Every country could adapt it to the current economic circumstances, but use Principles as the example of internationally accepted corporate governance rules (OECD Principles 2004: 13). The main goal of the Principles is to define and harmonize the globally accepted rules and effect of corporate governance, which gradually incentive any reforms on the organizational level (Demirbas, Yukhanaev & Stepanov 2012: 533). It defines the effective corporate governance as the framework, which "should promote transparent and efficient market and be consistent with the rule of law", which stress the existed link between corporate governance and legal and political systems in a country (OECD Principles 2004: 17).

Generally speaking in the area of private market orientation, corporate governance aims at efficient maintenance and development of one company, which inevitably leads to country prosperity if majority of companies shows relevance to good corporate governance, stated in the Principles (OECD Principles 2004: 24-25). As regards international presence, it is relevant to claim that corporate governance is directly linked with the market value of the

company, where good corporate governance increase this value and vice versa (Black 2001; Demirbas et al. 2012). Likewise market value determines growth and financial stability of the company, being used also as one of the main measurements in international financial reporting standards within accounting theory (Picker et al. 2012).

Being only one part of the institutional environment of a country, which consist of law, regulation, society commitment and other important components, corporate governance is affected by this environment (OECD Principles 2004: 12). According to the long break between two published reviews of the Principles – in 2004 and 2015 as it is anticipated – the author could assume that the issues of the corporate governance has gained the influence on the current operation of companies, especially for those, which are involved in international collaboration. Then it is difficult to overestimate the impact of corporate governance on foreign companies` performance as it provides transparency for both sides of collaboration and decreases the discomfort of information asymmetry for foreign partners. That could become the main reasons, why corporate governance is separately included in the conceptual framework, presented in the following section of this chapter.

2.6. Conceptual framework

Based on observed literature, it is worth to present the framework, which is going to be used and examined on experience of Finnish companies, working on the Russian market. Proposed framework is based on scholars` views on institutions, existed models of institutional environment as well as author`s personal expectations about institutional influence of the analyzed market, which are rested in personal knowledge about the market. As interview questions are created based on the following framework, results of the empirical part could slightly change the model, providing more applicable concept of institutional environment analysis of the Russian market reality. Figure 2 shows the study model, described above.

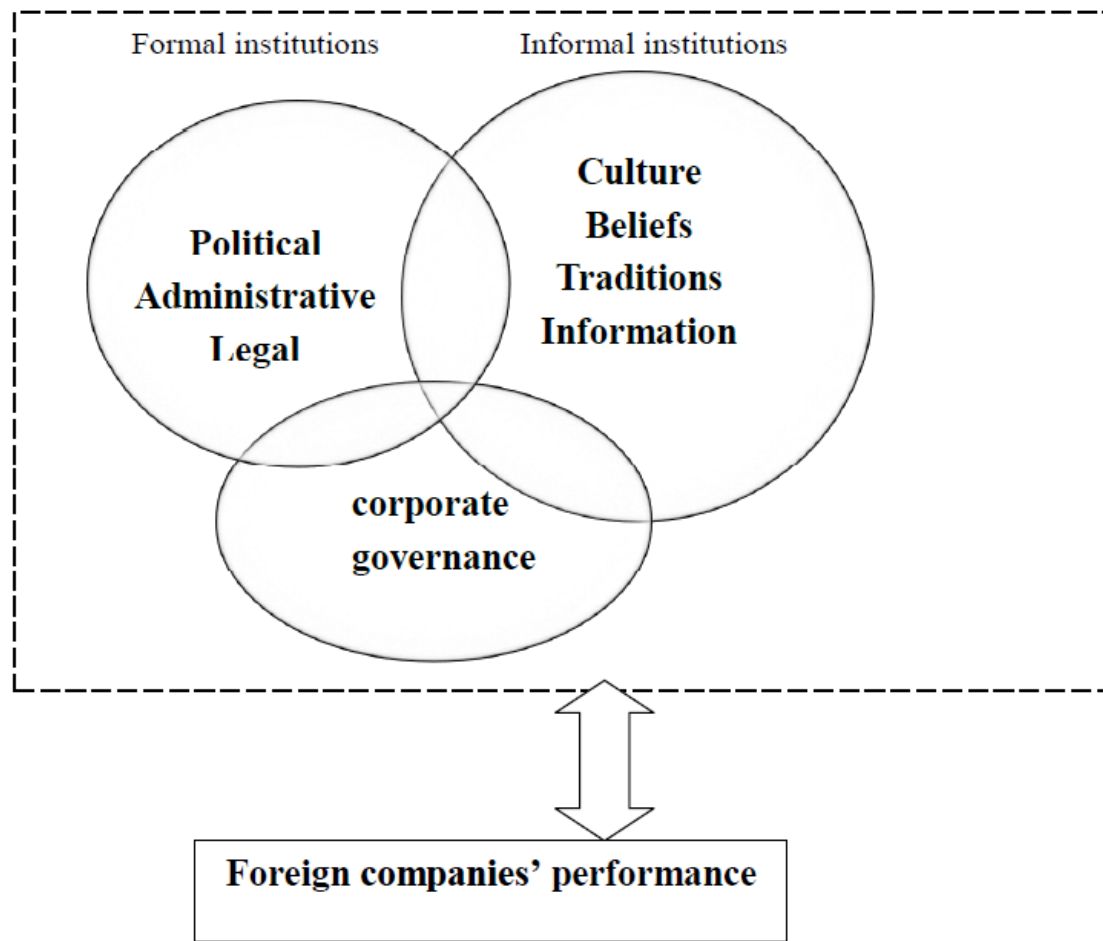


Figure 2. Study model

First of all, the main intent of the picture, provided above, is to show connection of three blocks: formal institutions, informal institutions and corporate governance. Even though, the last one is usually given as a part of either formal or informal institutions, the author of this thesis assumes separate impact, which corporate governance could have on foreign companies' will to invest or, on the contrary, their hesitations about proper partnership with the Russian colleagues within one jointly-owned organization. In other words, corporate governance in Russia could become one of the reasons, why foreign companies, including Finnish entities do not invest into the market and prefer other form of presence there.

Another important part to stress is the size of informal institutions block, which is made bigger than others on purpose. According to Peng et al. (2008: 927) informal institutions could be more influential than formal ones in the environment, where written rules and regulations are weak, which is common for emerging countries. Russia as one of the participants in BRIC alignment pertains to developing countries, where informal institutions value could transcend the formal institutions' one and even change the implication of the formal rules in the reality. That is why the author would like to emphasize significance of informal institutions by showing the relevant block in the model as a bigger part than any other.

In terms of two blocks – formal and informal institutions – it is worth mentioning that many scholars, examined institutional theory, combine components of two parts of the institutional theory slightly different, stressing the most applicable elements, which are tested on the reality. Thus, it is plausible to state that literature review is more important in terms of general understanding of two broad parts of the institutional theory with provided examples rather than following one particular framework with specific components, chosen for the precise research. Consequently, the author decided to compile formal institutions with three factors – political, legal and administrative – where the latter one consist of bureaucracy level and corruption issues in the country. As regards informal institutions, three out of four components are widely proposed as the example of informal institutions – culture, beliefs and traditions (North 1990; Oliver 1997; Peng 2009). When it comes to the forth component – information – main reasons of its importance were illustrated in the relevant section above. By information in the framework is meant information asymmetry and trustful sources of information, available in the country. Information availability and its reliability would be analyzed in details by including it as a separate component of informal institutions.

Another discussion relates to the co-relation between institutional environment and foreign companies' performance, shown by up-down arrow. It is stated by Peng et al. (2011) as well as Scott (2008) that institutional environment not only influences the strategy of

companies, but also is affected by entities, presenting in the market. It means that the more foreign companies operate on the market, the better institutional environment becomes with created new employment positions, new technologies implementation, extended financial resources and open access to foreign markets and networks of foreign partners etc. Precise rates of economic development, used for country economic development evaluation, could be improved by international companies, working on the market and developing it. Moreover, with more foreign enterprises on the market, the country gets better image globally, which attracts attention of more countries and companies. Then, it is logically to show that not only institutional environment affects the decision of the companies but also inverse influence is applied, which is deliberately illustrated in the conceptual framework.

The last but not the least explanation is about way, how three blocks are shown. The round-shaped figures are placed in a linked way in order to show that regardless of role, which institutions play in countries or examples within formal and informal institutions, the most important underlined fact is interconnection of all institutions in any considered country. Apart from economy development level or other less rigid measurement, no institutions exist solely, but all of them influence each other, which makes institutional environment so difficult to evaluate pragmatically and institutional theory so popular nowadays.

Overall, the proposed framework is applicable more for emerging countries, since it combines several features of institutional environment there, which could be different in developed countries with less informal institutions influence and less prominent impact of companies on improvement of institutional environment, for instance. Moreover, some scholars suggest that institutional environment could vary even among alignments and countries with compatible economic development (Kedia et al. 2012; Peng 2009; North 2005). Consequently, it is likely that the illustrated framework is applicable only for the Russian market atmosphere and would be modified after conducting the study interviews.

3. INSTITUTIONAL ENVIRONMENT OF THE RUSSIAN MARKET

This chapter is related to the overview of the Russian market business environment and current development within the chosen energy industry. Then it illustrates analysis of the institutional environment in the Russian market according to three main blocks, presented within the conceptual framework of the study. It is naturally summarized in the end with main findings emphasis.

3.1. Russian market and energy industry overview

It is logically to begin with general overview of the chosen market and economic situation in the country through some figures provision. Moreover, as the research is conducted within the energy sector and cleaning technologies in particular, examination of the chosen industry conditions and recent development on the public level are shown within the chapter.

3.1.1. Russia in the world

According to the Global Competitiveness Report 2014- 2015 (2015), all countries, involved in the analysis of the World Forum, could be divided into three categories: factor-driven, efficiency-driven and innovation-driven. Additionally, countries could be included in the transitional stage if there are some criteria met. The first one category is relevant for countries, relying on unskilled labor or natural resources offers. The second one is characterized by product quality and efficient production technologies focus, while the last stage – the innovation-driven – requires significant resource allocation for unique competitive product or services production. As it is shown in the Global Competitiveness Report 2014 (2015), the Russian Federation belongs to transition stage of development from efficiency-driven to innovation-driven one. At the same time, general assessment of

the country competitiveness is given by rating, which relies on different criteria, used by the World Economic Forum in the Global Competitiveness Index design.

When it comes to Russia, the country was put on the 53rd place among 144, with main constraints have been noted in institutional environment (97rank), financial market development (110rank) and goods market efficiency (99rank). Even though positive shift from 67th place as an overall rating in 2012-2013 to the current position is clear, it would be interesting to note that among other problems, weak institutional environment is raised as the first urgent challenge, preventing Russia from competitiveness development. As the current study deals with two countries, then it is worth to show the difference between them, according to institutions, mentioned above. Table 2 illustrates information, derived from the Global Competitiveness Report (2015) with rates, given to Russia and Finland in separately chosen pillars. Bearing in mind that Finland is put among the top-countries in the provided rating, only the most problematic pillars for Russia were chosen in order to illustrate significant difference in the particular areas.

Table 2. Comparison of indexes for competitiveness factors, Russia and Finland (Global Competitiveness Report 2104-2015).

Country	Overall index	Competitiveness factors			
		Institutional environment	Goods market efficiency	Financial market development	Business sophistication
Russia	53	97	99	110	86
Finland	4	2	18	5	9

It is clear, that according to competitiveness factors, two countries are significantly different, which could lead to lots of obstacles, emerged for Finnish companies, entering the Russian market. As the study is conducted within the institutional theory, then the

difference in the first pillar – institutions – should be carefully considered since it means that Russian institutional environment is less transparent and attractive for doing business, comparing with the Finnish one.

According to Scenarios for the Russian Federation (2013), prepared by the World Economic Forum, the country has shown fast economic growth in the recent year due to macroeconomic favorable conditions with increasing demand for energy and constantly high prices for oil and gas. As it is stated in FinPro report (2014), Russia is the fourth leading energy supplier country after China, the USA and Japan in the first three places, with 1066 TWh of electric power generation in 2012. At the same time, most of the power plants, operating in Russia are based on thermal resources – oil, gas or coal. It is claimed that Russian economic growth is highly dependent on global energy landscape. Several events such as increasing demand for energy in the Asian market, the Second Gulf War (2003-2011) and crushing Hurricanes Katrina and Rita in the USA supported constant demand for energy over the globe, which discourage the government of the Russian Federation to develop other sectors of economy and invest in, for example, alternative sources of energy or technologies of energy-efficiency (Scenarios for the Russian Federation 2013). Moreover, federal budget of Russia relies on energy revenue as well and determines investment in many other areas such as social security, education system, public health service and etc. Additionally, if extension of the budget expenditures is relatively easy to adjust, opposite requirement with urgent need for fiscal discipline, caused by the volatile demand for energy in the world, is difficult to implement (Scenarios for the Russian Federation 2013). Generally speaking it is worth to conclude that Russian economic growth is fast but at the same time fragile. (Scenarios for the Russian Federation 2013; FinPro 2014.)

Another widely discussed concept nowadays, which is also worth to be added, is sustainability and sustainable development, which is evaluated along with some indexes such as GDP, foreign direct investment inflow and outflow by the World Economic Forum, OECD and other international organizations. It is rooted in stability of economic

development and possibility of rapid changes - either upwards or downwards trends - which should be carefully analyzed in order to decrease unpredictable economic changes, which inevitably affect many countries due to interconnection between them in the globalized world. As regards the Russian Federation, it is stated that due to its high dependency on *de facto* the only source of revenue and global prices on oil and gas, the market cannot be assessed as sustainable (Scenarios for the Russian Federation 2013). Recent geopolitical actions and Ukrainian crisis, which has led to sanctions implementation from both European and Russian side, and, consequently, deteriorated image of the country with decreased prices for oil and gas, prove the noted above fact. It is crucial to understand that it is not possible that only one side has suffered, but all involved parties are affected by the current crisis in Ukraine. This is the area where sustainable economic growth determines recovering from the crisis and ability to substitute one resource by another.

When it comes to European demand for energy, there are other suppliers of energy have been revealed with far reaching opportunities of energy production. Countries in the Mediterranean, South Africa, South China Sea regions as well as the US projected level of oil extraction are appealing alternatives in the global environment, which affect the Russian Federation economy significantly (Scenarios for the Russian Federation 2013). Moreover, there is the trend of excluding some previously common sources of energy for the benefit of other, more environmentally-friendly ones in the globe. For instance, nuclear catastrophe in Fukushima and later on in Chernobyl has accelerated implementation of “green” strategy in Germany, which is aimed at nuclear power plants disposal by 2022 and gradual development of alternative source of energy as the main source of energy in Germany (Metz 2013).

Another example could become the Nordic region with boosted technologies development in the area of cleaning technologies, for instance, Finnish strategy of promoting “clean” technologies and green energy as a future core industry; governmental decision about decrease of CO² emission in two-third of the territory in Norway; renewable energy dominance in Iceland; Danish strategy of independence from fossil fuels by 2050 as well as

similar discussion in Sweden about development of green technologies in order to protect environment and slow down global climate change issues. (CleanTech Finland 2014; Spongenberg 2011; Heikkilä 2011). All these examples justify the fact that global energy landscape has been changing with piecemeal shift to different sources of energy and finding alternative suppliers of energy, except Russia, which automatically decrease prices for oil and gas on the global market and impede Russian economic growth (Scenarios for the Russian Federation 2013).

Furthermore, there are different directions of sustainable development have been evolved recently. According to the Global Competitiveness Report (2014-2015) rather broad initial definition of sustainable development has led to different directions of its development with one of them related to environmental sustainability, which is tightly linked with competitiveness issues nowadays. Such global issues as climate change, environmental pollution, which could severely affect the world population over the years, have become more important within individual countries today, which are responsible for preventive actions in this direction. In the era, when energy demand would inevitably increase, the primarily goal should be energy efficiency technologies, renewable energy sources development, and carbon emission reduction technologies, which facilitate pollution decrease and boost less costly productivity. Moreover, all of the above mentioned technologies could become the ideal area for innovation, which in turn encourages competitiveness growth and sustainability, being urgent not only for developed countries, but even more crucial for transitional economies. Additionally, use of renewable energy source is one of the aspects, selected by the World Economic Forum for environmental sustainability determination. When it comes to implementation of renewable energy practices, the aim of the advanced countries is in further following the chosen strategy, while emerging countries should encourage policy changes and reformation with solid legislation improvement in the area of alternative energy sources (Global Competitiveness Report 2014-2105; Scenarios for the Russian Federation 2013.)

One more technique to evaluate the Russian market reputation in the globe is indexes of the World Bank, related to ease of doing business concept. As well as Global Competitiveness Report, the following index should be given in comparison with Finland in order to provide more consistent picture. The summary of the following paragraph is presented below in figure 3, derived from the World Bank Group website. It shows difference between ease of doing business in Russia and Finland. There is the whole globe illustrated, painted in different color tone of red with the more pale the color is, the easier procedures of doing business are implemented in the country.



Figure 3. Ease of doing business map, Russia and Finland comparison (Ease of doing business 2015).

Even though this index will not be presented in full details, it is worth to state that ease of doing business index consists of several parameters. Among other are starting a business; getting licenses and permits; getting electricity; registering property and so on. The following index evaluates 189 countries with the 1st place related to the easiest country for doing business. The average compilation of different parameters puts the Russian

Federation in 2014 on the 64th place, while Finland was posed on the 9th place among 189 economies. (Ease of Doing Business 2015; Doing Business in Russia 2015.)

3.1.2. Cleantech industry overview

Generally speaking, the topic of renewable energy as well as other cleantech business areas development in Russia has been widely discussed within the recent years. The government illustrated strategic interest in innovation within the cleantech area by putting it to the innovation strategic plan, settled until 2020, and other laws and regulations. There are several reasons for cleantech development in Russian will be provided below.

There is the fact that lots of remote areas in Russian cannot be connected with the central grid (FinPro 2014). There is the problem, when around 30% of technical service requests from companies in regions, experiencing power shortage, are remained unsatisfied or timeframe is postponed. These are regions with power shortage problems such as Moscow and Leningrad District as well Krasnodar Krai and etc., where new companies under construction face with either extremely high prices for energy or unavailable power grid to connect. Moreover, there is another challenge in other regions of Russia, where renewable energy could solve the problem of considerable emission level, for example, the Sverdlovsk Region is in the top level of greenhouse gas emission, while the whole Ural District is one of the most vulnerable to climate changes in Russia. In terms of solar energy, several preferable regions could be noted as well. These are Krasnodar Krai, the Magadan Region, the Stavropol Territory and Yakutia (Alternativnie istochniki energii v Rossii 2013)

Based on the Regional Renewable Energy Tariffs in Russia report (2013) the potential of regional economies has already been proved in developed countries such as the US, Australia and Canada, where regions play significant role for cleantech industry development. Then, being similar giant energy supplier, the Russian Federation could encourage regional authority to adapt Federal laws in order to utilize geographical location benefits for alternative energy sources development. It is stated that along with central

support, namely regions should become key areas for cleantech industry development in Russia with created favorable market conditions for both local producers and foreign investors (Regional Renewable Energy Tariffs in Russia report 2013).

What is more, increasing prices for traditional energy in Russia also stimulate alternative sources of energy in the regions. According to the Ministry of Economic Development in Russia, there is the upwards trend in prices, which in case of remaining pace could reach the rate with 1,5 times as high as in the USA and only 10% lower than Germany experiences by 2015. Moreover, it is difficult to overestimate energy-intensive equipment which is installed in more than a half of industrial enterprises in Russia. These and other urgent problems could become the starting point for development of both renewable energy and efficient technologies for energy consumption. (Paramonova 2013: 46-47; FinPro 2014.)

According to Egorov (2013:10) the nature of incentives for Russian cleantech industry expansion is fundamentally different from the western experience. The former should include cleaning technologies as an offset for problems, existed in the traditional energy cluster, while western countries have experienced holistic and cautious reformation. According to the Renewable Policy in Russia (2011), one of the main challenges for successful development could become absence of adequate infrastructure as well as weak institutional environment. Moreover, lack of legal stimulation for renewable energy utilization could hinder development as well as insufficient society awareness of benefits from alternative sources of energy. Based on Michail Kurbatov, deputy minister, alternative energy is perceived as a luxury in Russia, though at the same time it could become beneficial alternative for traditional energy in remote regions (FinPro 2014). Moreover, development of renewable energy could trigger regional development by creating new employment opportunities, declining dependence of regions on central areas and compensating inequality among regions in term of power availability (IFC Renewable Policy in Russia 2011).

3.2. Formal institutional environment in Russia

The following part of the paper discusses formal institutional environment in Russia. It is worth to note that radical change in formal institutions was implemented in Russia after Soviet Union breakup, which required well-grounded decision-making process (Peng 2011: 40). Otherwise, economy could be trapped in a middle-way – being released from the centrally planned economy, but not achieving market-based economy benefits in a proper way. It is essential to understand that Russian market-based economy along with changes in politics, legislation, and informal communication has not evolved gradually with the proper sequence of actions within the only strategy. By contrast it illustrates either notable growth rate due to increasing demand inside the market or the periods of severe recession, which diminish the speed of economic development and prevent foreign investors to enter the market. The significant importance of strategic planning especially at the state perspective could be taken for granted as a general knowledge nowadays. The lack of strategic overview becomes the initial reason of any other specific characteristics, which will be discussed further within the following chapter.

3.2.1. Political environment

Among other issues, it seems to be logical to start with the description of political environment in Russia, the role of government and recent development of the political system in the country. As it was mentioned in the second chapter of the thesis, government, political regime and system of governance play significant role in institutional context because it is compiled of other regulative and even informal characteristics of the country. Several authors agree on the view about Russian political system as an authoritarian one with strong government presence in economics and tight control of the government in all existed institutions (Demirbas et al. 2012; Kuznetsova 2010; Orttung 2010). This system is far from the officially announced democracy and such dissonance usually depresses natural market economy incentives. According to one of the experts in the committee for

amendment of the public “Strategy 2020”, Russian economy lacks transparency and flexibility, which restricts foreign capital inflow and deteriorates investment climate of the country. The following situation is caused by dominant position of the government in many industries and scarcity of market institutions, natural for the market-based economy (Rogov 2011).

There are several approaches related to the political system in Russia, which could be interesting to discuss, even though all of them suggest insufficient development of democratic institutions in Russia and clear dissonance between formally announced regime and the one, implemented in the reality. What is more one of the main components of the democracy - free and fair elections – is usually sensibly criticized among experts, other countries` representatives and even within society during every election campaign. Furthermore, amended legislation and changes in the Constitutions bring anxiety for external parties as such actions do not solve main problems, but only pretend to be meaningful. (Orttung 2010: 6-8.)

Then five approaches, evaluating political system in Russia, discuss it also in the manner of election process and governmental control. The first one, presented by Petrov, Lipman and Hale (2010), describes current regime as an “over managed democracy”, which means that state control is too centralized and in order to keep regime stable, notable intervention of the government is crucially needed (Orttung 2010:7). Vladimir Gel'man (2008) insists on the free but not fair election, which also discredits democratic rules and reputation of the country. Moreover, any protest, which are officially accepted usually do not bring any changes to the system, but draw unfavorable attention to the illegal nature of the election, which lead to raised uncertainty among foreign and even local investors. Generally speaking, being one of the five approaches, “virtual politics” seems to be the most precise definition of the political system in Russia today, since the realm of politics is far from the targeting policy. Additionally, many changes – either radical or gradual – do not correspond with the strategic goals, which are stated in the particular public document. Some authors are even stricter with their evaluation of the political system in the country,

stressing absolutely non-governmental rules and dominance of the powerful elite, which are usually pertained to one political party, which in turn creates political environment relatively to opportunistic goals. (Orttung, 2010; Schröder 2010.)

Having observed several approaches to political system in Russia, it is worth to continue discussing some consequences of such political system with lack of coherent system and dominant mercenary behavior. Taking into consideration reformation, which was taken within several recent years, it is fair mentioning the period of modernization, proclaimed by Dmitry Medvedev as the president in 2009. It was clear that reforms needed, but at the same time short-term actions could not lead to the sufficient results, but only long-term strategic management brings essential effect on the economic growth of the market. There was the good issue started with defined strategically important industries for the country with respective steps for achieving fixed indexes in the particular areas. Overall, three main directions were announced - modernization of the economy, anti-corruption activities and reconstruction of the state structure (Schröder 2010: 4). At the same time, any plan is justified by its implementation, which is lagged in Russia due to lack of systematic approach as one of the key elements. Moreover, it is better when not only expectations exist, but also clear responsibilities and steps are presented. Otherwise, even potentially successful strategy would suffer with the lack transparency, which is actually applicable for the Russian realm.

There is another factor, which plays notable role for strategy implementation, which is in society support and trust to government actions. At the same time deeply-rooted distrust to the state and passivity could be taken as characteristics of the Russian community, which cannot be supportive power for strategy implementation Schröder (2010:2). Despite the fact that inactive society is preferable in terms of protection from any revolutionary protests, it is devolved into barriers, when society support is crucial, but missing in the reality. Both Orttung (2010) and Schröder (2010) suggest that state apparatus along with political institutions should be modified and become transparent with bottom up approach, when initiative is possible from society to the state.

According to different articles on the website of the Ministry of Economic Development of Russia, investment attractiveness is the issue, which has already become crucial for the Russian economy. It should be evolved gradually, but at the same time rather rapidly nowadays in order to overtake other emerging countries. Being as the solid background of the institutional environment, formal environment should be open and corroborate current open borders and adaptability to foreign operations. In order to achieve not only virtual politics, but also real collaboration between state and enterprises with the up-to-date feedback from the latter, it is better to have motivated and encouraged owners of such companies. Shareholders are inevitable part of the society and they are not got used to the long-term planning as well. It becomes the reason, why public actions and reforms cannot find societal support, which is undoubtedly crucial for as it illustrates systematic approach and provokes mobilized resources both from the state and entities whereby positive results are achieved.

It is difficult to overestimate transparency of the business climate, which is advocated by several authors as one of the strategic goals, which are currently built for the Russian economy (Rogov 2011; Orttung 2010). Bearing in mind Western developed economies, it is logically to assume that companies, established in the democratic environment, would prefer following some basic rules, even though MNEs are usually ready to adapt to specific market characteristics. Nonetheless, one of the most important features of democracy is plurality and the only political party dominance avoidance. The principle of freedom of different points of view as well as flexibility and adjustment to the society attitude could be noted as the background of such multi-party system. At the same time, current situation in Russia, when every new election raises active discussion about actual presence of opposition in the country, cannot be positively evaluated by foreign enterprises. Besides, Russian government has created the document with the list of people, who compile reserve for managerial position and other administrative ones, which by itself justifies prosperity of bureaucracy in Russia with the precise list of people, defined beforehand, and leaving no room for external initiatives (Orttung 2010:3). By such paper, government attracts attention

of both local and foreign experts, who are responsible for commenting on the situation and rating the country globally.

3.2.2. Legal environment and legislation in clentech industry

Russia is a civil law country. Even though the Constitution of the Russian Federation is ranked on the top within the legislation hierarchy, there is the article 15, which states that international law has precedence over the Constitutions and domestic laws (Demirbas et al. 2012: 541). There is interesting model has been found in the literature, which illustrates links between institutional environment and firms` performance. The essential part of the framework is in elements of institutions, which are compiled of mostly regulatory elements. The described model is provided below as the figure 4.

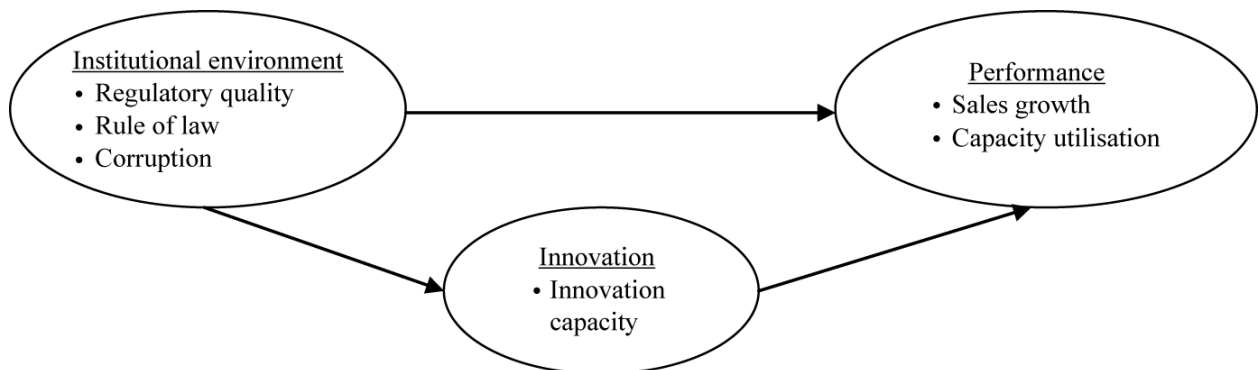


Figure 4. Russian institutional environment and its impact on companies` performance (Chadee & Roxas 2013:22).

Due to the fact that the study is about companies, pertained to the cleantech industry, it would be logically to discuss particular legislation, rather than the general overview of it. Then, in the following several paragraphs main laws and regulations, issued and amended in the Russian Federation in the cleantech area will be shown.

First of all, it is important to state that even though some target values are announced, the real legislation as well as government policy are not sufficiently developed to facilitate proper development. According to International Finance Corporation (IFC) and Russian Renewable Energy Program, there is the huge potential for renewable energy industry in Russia with the main focus, made in the regions (IFC 2015). Moreover, several target values have been announced with precise time framework to achieve, including declining energy intensity of GDP in 13% by 2020, increasing the share of renewable energy source in 4, 5 % by 2020, reducing energy intensity by 40 % and other key elements, which compile the whole strategy of alternative energy plan implementation (FinPro 2014). According to the Renewable Energy Policy in Russia (2011) public interest in the chosen industry has already been reflected in several official regulations and documents such as Energy Strategy to 2030 (Nov. 2009), the Concept for Long-Term Social and Economic Development to 2020 (Nov.2008) the Climate Doctrine (Dec. 2009), and the State Energy Efficiency Programme (Dec. 2010).

Bearing in mind changeable nature of the Russian legislation, the author decided to observe regulations, which have been issued within the several recent years, avoiding too detailed analysis of the legislation. Then, according to Renewable Energy Policy in Russia (2011) as well as FinPro (2014), different current regulations have started to evolve from 2008 with constant improvement and additional laws publishing. Within this time frame until today, Russian legislation in energy efficiency direction is accounted for 46 government regulations, 14 presidential decrees and federal laws, 45 orders for different ministries, 44 regional laws and 151 regional and 321 municipal programs (FinPro 2014). It is logical to assume that above mentioned legislation contain lots of amendments within the years of its implementation, which justifies the fact that Russian legal environment in cleantech area does not transparent enough not only for foreign companies, which inevitably face with translation challenges, but also for local companies, which could be easily confused by many regulations and rules, existed so far.

One of the latest regulations, which is widely discussed among expert is Decree № 449, adopted by the Government of the Russian Federation on 28th of may 2013. This document provides regulation for Promotion of Renewable Energy on the Wholesale Electricity and Capacity Market (An analysis of Decree № 449 2013). This law determines several core issues, related to selection process of investment projects, obligations for renewable energy investors, price limits for produced energy, which is stated before contract signed, rights and duties of investors as well as other objectives, which define investment into renewable energy sector in Russia (An analysis of Decree № 449 2013). The document is assessed as a valuable step towards development of legislation framework in the strategically important sector, which could not only encourage local entrepreneurs but also boost investment inflow to the cleantech industry (Russian Renewable Energy Program 2015).

However, according to FinPro (2014) weak and vague legal framework remains the barrier for foreign investor in energy efficiency sector, as with many different regulation and laws, it becomes truly complicated to, firstly, find suitable information and then, follow rules, which are very volatile. Furthermore, it is worth to note that based on the personal experience, the author claims that Russian regional legislation should be strictly determined by the federal one in case of success seeking. Lack of clear federal regulation and giving freedom to the regional authority in terms of adaptation some regulation to the local features usually lead to inconsistency for the focus-group, i.e. companies, investors, customers etc. According to the Regional tariffs booklet, prepared by the ICF (2013) there are still lack of regional clear legislation in term of alternative source of energy, which hinder development and investors` entrance. Even though regions could be the key areas for cleantech industry development in Russia, federal regulations should be clearly presented before local authority starts to adapt them to the regional features.

3.2.3. Corruption

Based on the requirement of trustful relationship as an engine for successful reformation, it is essential to state that Transparency International defines corruption as one of the reasons

why fair interaction between society and government is broken. Corruption Perception Index is globally used annual ratio of 175 countries in terms of corruption practices on the public level with the scale from 0, i.e. highly corrupt to 100, i.e. very clean country. When it comes to Russia, the country was measured with 27 score in 2014, which is even lower than last two years with 28 score for 2013 and 2012. By contrast, Finland is put on the top of the ranking list with 89 score for 2014, which is slightly lower for only one score, comparing with 2012. Based on the Corruption Perception Index (CPI), the significant gap between two countries is obvious, which inevitably affects practices of doing business.

As regards general definition of corruption, there are several types of corruption – either social or business one; Western, Eastern and African types; and other possible classification (Levin & Satarov 2012:6-8; Karhunen & Ledyeva 2012:196-197). At the same time according to Judge, McNatt & Xu (2011:93) corruption is described as misuse of power on the state level on the benefits of individuals with opportunistic behavior dominance among them. It is worth to assume that corruption, becoming part of the economic transactions of the country, heavily affects transparency of the market and complicates foreign firm performance, even in case of awareness about corrupted relationship – either social or business-related one. Then, it is beneficial for foreign companies to be familiar with the current situation in the market and perceive corruption as the circumstance of business environment, as it is too complicated to fight with the issues, which are rooted deep in the history and current political and administrative system.

Due to the fact that corruption in countries as Russia has inherited from the past and still exists as a common practice, it is worth to consider it in details in order to illustrate entire picture. Corruption is the process, which is usually propelled by inconsistency in political regime or its rapid change (Levin & Satarov 2012: 9). It is worth to note that corruption as a notion exists in all countries and institutional environment, even though it varies from impediment to helping hand in developing and developed countries respectively (Judge et al. 2011; Cuervo-Cazurra 2008). Thus, there should be factors, which have an impact on the corruption growth, which some authors find in transitional period in the country, when

legal regulation weaken as a consequence of diminished old institutions, but unstable new ones. Then, it is logically to assume that the more vulnerable history was, the higher level of corruption would be in the country. Being aware of historical reasons of corruption along with current conditions of its existence, government is responsible party to fight against corruption and consequent bureaucracy, but it is possible to implement only in case of state interest and exceeding benefits from foreign operation comparing with ongoing bribery.

According to Levin & Satarov research (2012), the Soviet heritage has hindered proper development for 70 years and many institutions were negatively affected during that time and later on, i.e. 1991 onwards, when Western practices tried to be benchmarked, which usually lead to more serious problems. It could be claimed that the Russian Federation historically has experienced breaking points too often to create stable institutions or change it smoothly. All in all, fiscal policy, taxation regulation, excessive public control on free market players along with other variable “rules of the game” lead to lack of trust and then short-term orientation dominance in receiving the profit by any means (Levin & Satarov 2012: 10). When it becomes too risky to invest into the long-term projects, which are usually more important on the nationwide scale than short-term ones, owners of companies are ought to protect business from possible risks and most of them aims at governmental assurance or other solid public assistance in leading projects

Nevertheless it is inaccurate to state only negative trend since some changes have already been done in order to decrease corruption in Russian, even if results are not visible so far. The anti-corruption policy of the President Dmitry Medvedev in 2008 could be mentioned, implemented by two plans of respective laws and regulations changes: in July-December 2008 and in April (Schröder 2010: 4). It was followed by participation in anti-bribery Convention of OECD in 17/02/2012, which means that the Russian Federation became the part of international agency, developing law and regulation against foreign public official bribery, which undoubtedly justifies the positive trend in corruption decrease. According to the OECD rules, the Russian Federation as well other members of the Convention should present reports about anti-corruption laws implementation, which are used as an analysis

tool for measurement. There should be 22 reports with two of them have already been issued. According to the second review issued 11 October 2013 several actions within the corruption decrease policy could be noted. For example, restructuring collaboration between the government and enterprises in the case of tight family ties existence, special training of state representatives about proper tools against corruption, Anti-Corruption Council creation along with Working Group on collaboration between government and business in the manner of receiving feedback from the latter about anti-corruption law implementation; and many other actions, which could be assessed by the OECD Committee as the positive steps in the Russian business environment as regards corruption decline (OECD Report 2013: 10).

Overall, when it comes to corruption, it is worth to state that some positive changes have been made by the state. However, all of the above mentioned actions provide visible results with the years, not within a short-term time frame. Moreover, positive examples within the business environment on the cases of international collaboration should be added into the practices in order to illustrate not only the virtual policy on the anti-corruption legislation, but also real results for foreign investors and international community.

3.3. Informal institutional environment in Russia

According to Estrin & Prevezer (2011: 47) informal institutions in Russia have a notable impact on formal rules and mechanism with underlined corruption practices, common for many emerging countries and rooted in *Perestroika* period in Russia, when market-based institutions began to develop. Moreover, based on Helmke & Levitsky (2003) typology, there is the difference between goals of parties in formal and informal institutions, which decelerates decision-making process and even hinders it. Even though corruption or “blat” issues are partly replaced by another mechanism, called personal relations, the nature of it remains the same (Mattsson & Salmi 2013:191). However, personal relations should not be taken only as a destructive factor. Being the part of business network, it simplifies business

developing via trust creation, knowledge sharing and uncertainty reduction, which all works as a system for improving business climate and encouraging new players' adaptation (Mattsson & Salmi 2013:191; Ledeneva 2009:265). Then, personal relations could be detached from the corruption or *blat* issues due to potentially positive impact of the former one.

Although personal relations could be supportive for doing business, it is worth to show what does it mean for the Russian reality and what role personal relations play for business creation, bearing in mind difference between market-based economies and transition economies with continuous process of transformation for the latter from planned economy to market one. After the collapse of the Soviet Union, the formal institutions were undeveloped due to the fact of planned economy dominance with prohibited evolvement of market institutions. At the same time, in absolutely new environment with emerged competition and cooperation, companies had to find the way to be efficient in the market and then personal relations promoted business development (Mattsson & Salmi 2013:193). At the same time, having changed from planned economy way, personal relations have not been improved for the proper level common for market economies, even though formal institutions have improved, comparing with the earlier stage of Russian market-economy development (Salmi & Bäckman 1999; Ledeneva 2009; Mattsson & Salmi 2013:197). Networking creates on the top level, which restrict business collaboration and makes business players still dependent on the group of powerful people with the only difference from the centrally planned economy in having them on the top of organizations instead of the governing party (Ledeneva 2009: 266-267).

There is the concept of overlapping between various networks in the market, which means interconnection among different types of networks participants in order to exchange vital information and explore more opportunities so that all participants get benefits from such cooperation. Overlapping provides information sharing, exchange of technologies, trust creation and, consequently, leads to commitment from networks players, which guarantees sustainable development and permanent value creation among the companies (Mattsson &

Salmi 2013:191-192). Moreover, the key to success is transparency of doing business and cooperation with both customers and other parties within the value-adding chain.

When it comes to the Russian reality, it is worth to consider the fact that path-dependency of institution creation, stated by North (1990), is underlined factor for the Russian market with many peculiarity of the business environment, rooted in history of the country. One of these features relates to the attitude to transparency and sharing information with partners, which is prerequisite for cooperation within networks. First of all, it is worth to note that after the Soviet Union collapse, centrally owned companies were immersed into open market with competition issues, flexibility and networking requirements, which caused tough strategy of many companies, willing to stay in the market. Thus, information as well as any partners' contacts was extremely viable for each company in terms of its survival. Strong leadership with autocratic manners was almost the only way to succeed in the transforming market, where formal institutions had not been developed yet and informal contacts were the only opportunity to handle with political and economic changes in the country. Therefore, decentralized approach with transparent instruments of doing business and interconnected partners within the network, which seems to be as the precondition of truly effective cooperation, was missing among Russian companies with opposite centralized approach of management and rigorously restricted freedom within organizations. (Mattsson& Salmi 2013: 196; Puffer & McCarthy 2011: 23-24; Ledeneva 2009: 267-270.)

Another important feature to note is about orientation of business, which is also different in Russia, comparing with the Western world. Trustful relations require commitment from both sides, which in turn need to be justified by investment for long-term plans and strategy. At the same time, in highly volatile environment, common for the Russian market, short-term projects and plans have been preferable to long-term ones, which discourage foreign firms to invest and local companies to seek for cooperation with new partners to enlarge networking (Mattsson& Salmi 2013: 196). Moreover, it is crucial to take into account that the role of the state in Russia is still significant and as regards network

building, many foreign companies are forced to start with the governmental relations in order to develop further with received informal guarantees and assistance (Mattsson & Salmi 2013: 196). State representatives usually are closely linked with top-management of big companies, which attract foreign investment more often, thus, one of the most important networks in Russia remains the state, which provides further cooperation within suppliers, customers and etc. (Fey & Shekshnia 2011: 64).

3.3.1. National culture

Culture is commonly defined within informal institutions as one of the basic factor for other existed beliefs, norms, values and behavior. Then, it is worth to discuss culture features in order to get better overview of the target market. At the same time, according to Hofstede (2015) any culture description is valid only with comparison, which is actually meaningful for the current research, providing clear picture of similarities and differences between Russia and Finland. This comparison could become descriptive later on the research as the background for specific informal institutions value and impact, which they have on the performance of Finnish companies. Hofstede model is taken into account due to the fact of its wide applicability, frequent referencing to among researchers and easy opportunity to illustrate comparison between two countries of interest.

To begin with, there were initially tested four dimensions – power distance, uncertainty avoidance, individualism versus collectivism, and masculinity versus femininity – which were used until further investigation in 1991, when fifth dimension, i.e. long-term orientation, was added to the model and the latest one – indulgence versus restraint – was introduced as well (Hofstede 2015). There is comparison of Russia and Finland presented in the figure 5 below in line with six dimensions, stated above with detailed description of them, provided further in the text.

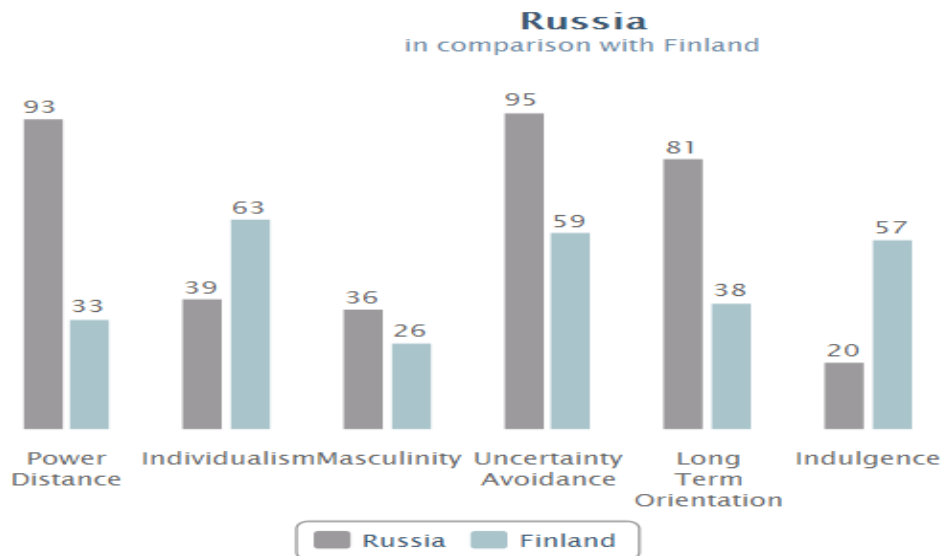


Figure 5. Russia in comparison with Finland according to Hofstede's dimensions (Hofstede 2015).

It is clear from the figure above that Russia and Finland are two almost opposite countries in terms of cultural dimensions, having the minimum score difference with ten points only in one dimension – masculinity. The first discussion relates to power distance, which is defined as acceptance within society inequality in power distribution. Then, having 93 score for power distance, Russia illustrates distant power holders from the society and general acceptance of this fact. By contrast, 33 score for Finland means that power is less unequal in the country with closer and more transparent relations between society and powerful group. (Hofstede 2015.)

Next dimensions deals with integration of individuals into the group, their customs to spend time together than alone and evaluation of connections between people – either it close or weak with collectivism or individualism prevalence respectively. Thus, Russia is expected to be less individualistic culture with tolerance to group gathering and other collective activities rather than Finland, where people would prefer individual efforts and

responsibilities as well as expect the same from others. The latter one could be manifested on the work place and relations, based on individual achievements. (Hofstede 2015.)

The third one – masculinity reveals driving force of society, i.e. competition and pushing behavior dominance in masculine countries versus moderate attitude to life with equality, compromise and quality in feminine ones. This dimension is the only, where two countries have close scores with 36 for Russian and 26 for Finland. Even though, it is not surprisingly to perceive Finland as the country with quality of life value as well as respect to solidarity and flexibility, relatively low score for Russia triggers noncompliance with the reality, even though status symbols as well as disrupted rules of equality are pertained to power distance dimension, based on Hofstede`s explanations (2015). (Hofstede 2015.)

As regards uncertainty avoidance, this dimension describes the tolerance of country to new and unknown situation, ideas, people and procedures. In order to avoid uncertainty, strict rules and code of conducts and so on are issued so that most of the possible options from variety would be covered. According to Geert Hofstede & Gert Jan Hofstede (2015), in countries with high score for this dimension, people are more emotionally-driven and motivated by inner force. By contrast, countries with relatively low score adopt less rules and higher tolerance to differences in opinions with less pronounced emotions. Then, Finnish score for uncertainty avoidance is clear to apply to the known reality, though the same cannot be said about Russian environment. Even though, all results for Hofstede`s dimensions have underlined solid theoretical basis, the author of the thesis, based on personal experience and Russian citizenship would assume that uncertainty avoidance score could be less than given with 93 point and even if this dimension should remain high, the figure for that could be closer to Finland, for example. This point of view is rested on the fact that rules and laws do not have the same power, as in Finland, for instance, and created sometimes to bypass rather than follow. Moreover, uncertainty in business is one of the problems, which has been kept for a longer time and induced people to adapt to it. Generally speaking, with observed literature about Russian environment and current obstacles, the author suggests that Russians could get used to constant uncertainties, existed

in many areas, but it does not mean that they strongly resist to it via rules, laws and other transparent manifestation, which could reduce uncertainty within the country. (Hofstede 2015.)

Two last aspects of the model could be shown within one paragraph as relatively new and likely changeable. The fifth dimension demonstrates patience to tradition and willingness to change for the future, dividing countries into normative with low score and pragmatic with high score. According to the figure 5, Russian pertain to pragmatic country with people's commitment to change traditions for the benefit of future, which is different for Finland, where people are respectful for existed customs. The last dimension is the most recent, added in 2010, illustrates people's attitude to leisure, expressed impulses and desires. Having received quite low score of 20, Russia is presented as a country, where people are resistant to uncontrolled desires and majority of them follows pessimistic view of life, which is considerably different from Finnish high score for this element. According to Hofstede (2015), Finnish people are optimistic with common desire not only work hard, but also relax and enjoy the life. (Hofstede 2015.)

After careful consideration of Hofstede's model in terms of Russian dimensions of culture, it is worthwhile to apply it to the reality, observed in pervious part of the study. Having cultural dimensions as a background, some notions could be explained more logically. For example, high score for power distance is expressed in usually small group of people, who make all the decisions, avoiding information and responsibilities sharing. This is manifested both on the organizational level and governmental one, where extremely centralized management impedes network creation and trust building among partners. At the same time, the custom of not making any decisions has led to absence of individual self-consciousness of people in term of company perspective. It means that employees try to avoid any responsibilities, preferring to share it, which could be caused by unfair appraisal system or other experience of individuals, where individual merits have not been properly assessed. As regards uncertainty avoidance, it is tricky question as the author is at issues with presented score for Russian culture in the dimension, even though this

hesitation would be clarified within the empirical part of the research. Overall, review of the culture could facilitate understanding of revealed results. It becomes a worth background for informal institutions analysis.

3.4. Russian corporate governance

It is worth to admit the fact that Russian corporate governance has inherited a lot from the Soviet period with accelerated move from the centrally planned economy to market-based economy after the Soviet Union breakup. Having broken barriers towards the Western economies, Russia faced with the urgent issues such as international accounting standards, corporate governance standards, company valuation techniques, international financial institutions and other globally accepted rules of the game (Demirbas et al. 2012: 533). All above mentioned institutions ease international transactions among enterprises from different countries, as it becomes transparent in terms of procedures, policy and set requirements. Moreover, discussing the issue of corporate governance, it is worth to note that even without noticeable amount of foreign investment in the beginning, confident corporate governance can reduce the cost of capital for the local enterprises and enlarge financial market sources for individual company (OECD Principles 2004: 13).

However, the situation was different for Russian economy as having collapsed one system, the new one was not been built yet and straightforward actions were needed. Coming back to the privatization period as one of the first step to the market-based economy, it is worth to argue that there was no long history of building corporate governance practices for Russia. Privatization along with vouchers distribution enabled all citizens regardless of specific knowledge or experience become owners of previously state-governed enterprises. This fact is one of the features of corporate governance in Russia, since current required transformation to international standards could be undertaken only by the specialists and strategically oriented directors. When it comes to the enterprise level, some authors state that without competent leadership, presented by several directors, long-term strategy could

be difficult to implement (Black et al. 2001; Demirbas et al. 2012; Judge, Naumova & Koutzelov 2003). Furthermore, according to the Judge et al. (2003) board of directors should be presented by several well-educated and directly motivated in company improvement managers, who illustrated regular turnover, which seems to be natural for companies, following the rules of Joint Stock Companies Act.

According to Black (2001: 92) emerging countries illustrate the opportunity for wider interfirm variation, caused by the lack of strict rules and regulation. As Kuznetsova claims (2010: 145) corporations in Russia are run in a more spontaneous manner rather than well-adjusted one. At the same time, based on the author's experience and personal point of view, such kind of freedom triggers misuse of formal regulation by Russian enterprises. Then there should be strict requirement for Russian companies to follow international rules with little acceptance of local changes at least until the period when strong formal institutions along with corporate governance would be stable, long-run oriented with several solid positive examples from the business environment. Additionally, it is important to remember that simple benchmarking of western corporate governance model could lead to new problems and raise new questions rather than create prosperous business environment within at least one company.

As Bradford and Bernstein suggest (2006) the common style of corporate governance in Russia could be defined as autocracy or authoritarianism, when business has more family related type. Such definition is equal to the political system overview, provided in the previous part of the study. The nature of shareholding itself with prevailing number of inside owners limits the opportunity for foreign shareholders. Moreover, inside owners usually shows impassive approach to any managerial issues, which leads to internally oriented nature of corporate governance for Russian companies (Kuznetsova 2010: 148-150.) As Demirbas et al. (2012: 546) state the main responsibility of the well-organized corporate governance is to provide investment inflow and long-term collaboration with external partners. In terms of foreign investment, it is possible only in case of transparent procedures and activities with shared ownership and fair rights and duties. The latter one

could be guaranteed by the strict and justified legislation from the very beginning and then would be taken for granted by investors, based on the reputation.

Corporate governance in Russia is rather new notion, but it is one of the heavily required components within international collaboration. The importance of trustful relations should be perceived by both policy-makers and companies. The only action, which could recover corporate governance of the Russian business, is systematic restructuring of the whole system, which in turn requires changes in legal, political and even informal institutions (Kuznetsova 2010: 155-158). Otherwise Russian economy would struggle without sufficient amount of investment, which leads to overtaking form of economic development, but not the leading one.

3.5. Summary

As the form of summary of the chapter, the author would provide some specification of the conceptual framework, illustrated first in the chapter 2. It means that after overview of the Russian institutional environment, it is logical to add specific elements into the block of factors, included into the study model. Then, formal institutions in general and political, administrative and legal institutions would be analyzed through government assistance and public policy within the political factor; power of legislation in a legal factor; level of corruption and bureaucracy as well as external business infrastructure for the administrative aspect. When it comes to informal block of institutions, the culture is analyzed through Hofstede's dimensions; beliefs and traditions are combines and supposed to be observed through inherited Soviet past spread within the business environment as well as personal relations and networking issues. Informal element will be divided into information asymmetry aspect and availability of the trustful sources of information. The complemented version of the study model is presented below as a figure 6.

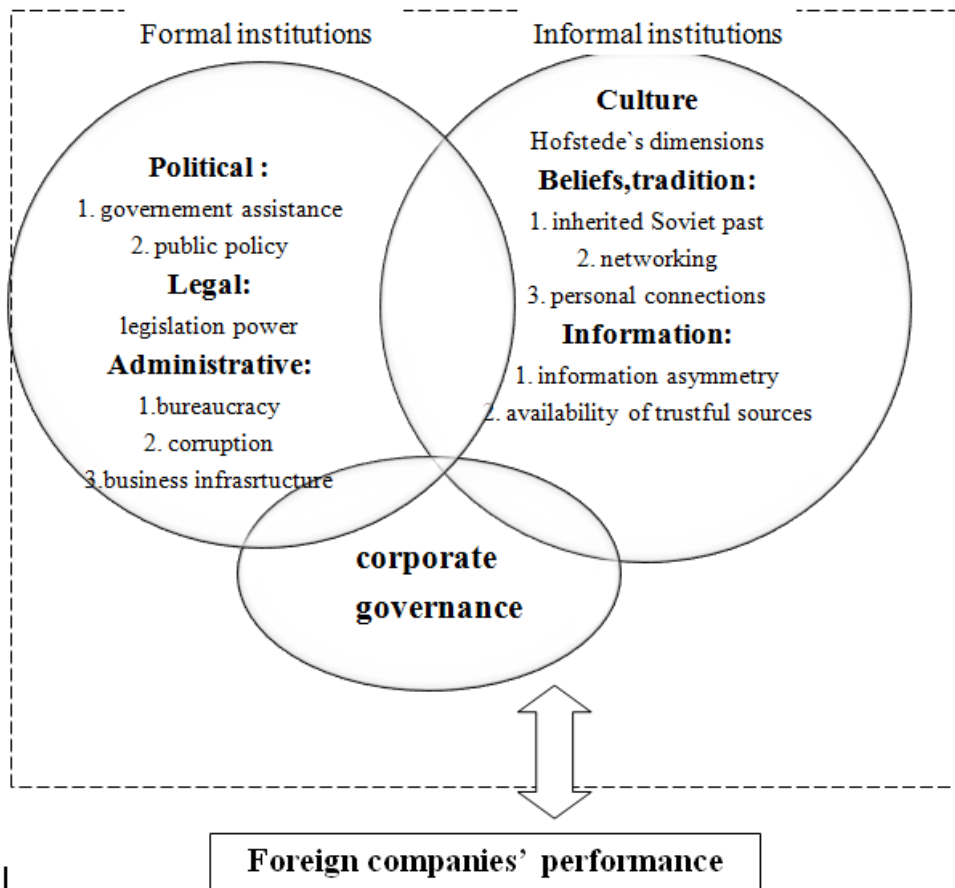


Figure 6. Study model for the Russian market

4. METHODOLOGY

The following chapter comprises description of basic research characteristics, applicable for this thesis such as research purpose, approach, strategy, time horizons, data collection and analysis as well as discusses reliability and validity of the research. The chapter is divided into several parts, following the main points, mentioned above.

4.1. Research purpose and approach

In order to understand connection between theory and empirical findings, it is recommended to define research approach in the very beginning of the research so that inconsistency within the investigation would be avoided. According to Saunders, Lewis & Thornhill (2009: 124) there are two widely used research approaches to choose from: deductive and inductive. The main difference of these alternatives is in theory perception and drawing priorities on either theory or data collection. It means that in term of deductive approach the main goal is to test theory, which comes usually first as a solid background for the further research. Then, there are several characteristics of this approach, according to the description above, usually mentioned: highly structured research, causal relationship between variables, quantitative method of data collection dominance, and generalization applicability based on the empirical findings (Saunders et al. 2009: 124-125). Inductive approach is rooted in social science development opposing to traditional science, relevant for the deductive approach. Induction enables more flexibility in interpreting results and relies on data collection first with developing theory afterwards. Researchers, following inductive approach, are more careful to the context of the analyzed concept and human attitude to it, which is more suitable to organize through the qualitative research method (Saunders et al. 2009: 125-126).

At the same time, the common thread of the whole methodology description should be the fact that actual research frequently combines both approaches and other characteristics due

to the fact of higher complexity of the research, conducted in the reality than theoretical perception research types. According to Dubois & Gadde (2002:554), there is the third approach, called abduction, which incorporates two above mentioned approaches. Then, the chosen approach for the current research could be defined as abductive one, since the conceptual framework, created on the basis of existed theory about institutional environment, is modified under the influence of obtained interview results. Therefore, it is correctly to state that the third, combined approach is used for the study, because it partly meets the criteria of both approaches – both deductive and inductive.

It is logically to assume that one of the starting points of any research is defining the purpose of it. As Saunders et al. (2009:138) state, there are three core purposes, which researchers usually determine to follow. These are explanatory, exploratory and descriptive purposes. However, according to Robson (2002) the purpose of the study could change even within the conducting of it, although it is more suitable to follow chosen one. Every researcher is afraid of being too descriptive, which could become the reason, why usually several purposes are combined for the study (Saunders et al. 2009: 140). The meaning of descriptive purpose is based on its name, for being suggested by Robson (2002: 59) as “an accurate picture of persons, events or situations”. It is often used as a supplement to exploratory analysis, since every concept should be described first and then explored (Saunders et al. 2009: 140). Researches with exploratory purpose are eager to learn about the phenomena, examine different aspects and ask questions to answer within the study. At the same time, exploratory research is rather risky as it could happen over the time, that there is no need to continue research as solid data or results could not been found (Saunders et al. 2009: 139). The third option for research purpose is explanatory one, which is most frequently used for analyzing relationship between variables and, consequently, more applicable for the quantitative research (Saunders et al. 2009: 140).

For the current study two purposes are stated as the leading ones, i.e. exploratory and descriptive. The latter applied via institutional theory observation and different scholars` suggestions combined, while the former is exercised through asking questions about

institutional environment impact on Finnish firms' operation in the particular market and raised interest to rather unrevealed topic.

4.2. Research strategy and method

Each research with the stated question predetermines data collection technique and the way of its analysis, which in turn influence obtained results of the study. Then, it is crucial to understand research method, which is also tightly linked with the research strategy. There are two widely-accepted methods – qualitative and quantitative – which vary in terms of data collection, i.e. while qualitative research deals with non-numerical data (words, videos, pictures etc), quantitative research relates to statistical analysis of numbers by means of graphics, trends, causation and correlation, and other measurements (Saunders et al. 2009: 151). According to Ghauri & Grønhaug (2005:109) measurement presence differentiates quantitative from qualitative methods. Common questions for qualitative research are “how”, “how often”, “how much”, whereas quantitative studies usually answer “what” and “why” questions (Cooper & Schindler 2011: 160-163). According to Saunders et al. (2009: 414,480) both quantitative research and qualitative could provide data from any research strategies, but while the former assume less subjective assessment of researcher, the latter provides more flexibility through researcher' participation and involvement in data collection procedures as well as interpretation of results. As it was states above, research method affects the results, but, at the same time, the nature of such impact is vague and hard to avoid (Saunders et al. 2009: 154). Researcher could choose among mono-method, when the only alternative is used or multiple-method, where both of them are combined and influence on the results is likely decreased.

There is another important issue within methodology, which refers to research strategy. It is worth to note that there is no 'preferable' strategy, as each of them is extensively used, but the main assessment criteria for the chosen strategy is either it corresponds with research question or not and if suitable results could be obtained within the favored strategy. There

are plenty of alternatives, such as survey, experiment, case studies, grounded theory, action research and etc., where some of them more in line with deductive approach, but other are suitable for inductive one. (Saunders et al. 2009: 140.)

The current research is conducted within the case study strategy. Then, it is worth to explain main characteristics of the favored strategy and reason of the choice. According to Robson (2002:178) case studies is defined as ‘a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence’. Then, the context of the phenomenon is on the particular interest of a researcher, who is usually actively involved in the process of gaining information. Thus, case study is one of the common strategies for qualitative research (Stake 2005:443; Saunders et al. 2009:145-146).

Following Baxter & Jack classification (2009: 547-549), there are plenty of case study types, i.e. explanatory, exploratory, intrinsic, collective, and instrumental. Bearing in mind abductive research approach for the study with intent to theory modification after results receiving, instrumental type of case study is in line with the research goals and objectives. This type is defined as supportive and facilitating form of case study, which is used for theory development and detailed analysis of the context (Baxter et al. 2008:548). At the same time, as real research could mix several types of methodologies, it is likely to state that the study uses collective case study as well, since results and further conclusions are made on the basis of several case study companies so that accurate understanding the phenomenon of institutional theory impact on Finnish companies’ performance would be obtained (Saunders et al. 2009:146).

As regards research method for the study, qualitative one is chosen as it enables answering the question about how institutional environment in Russia affect Finnish companies’ operation in the Russian market. Moreover, adopting this method, observation of context development is possible, which corresponds to longitudinal studies when it comes to time horizons issue (Saunders et al. 2009: 155).

4.3. Sampling, data collection and analysis

To begin with, it is logical to describe sample collection techniques, which was used for the study. Even though, selecting sampling is more important for quantitative research to guarantee appropriate research quality, it is also applicable for qualitative research (Saunders et al. 2009: 235-241). Based on classification, provided by Saunders et al. (2009: 213) and having assumed that sample collection techniques could be also combined in the reality as well as other methodological choices, the researcher claims that two types of sample selection were taken within the research: purposive and self-selection. The former facilitates choice of cases based on personal judgment of applicability to the study and possibility to receive results, which would enable answering research question (Saunders et al. 2009: 237). It was expressed in the way, how potential case companies were selected. Having participated in the forum for energy industry companies, annually held in the Vaasa area (Energy Week), the author visited exhibition of the wind & solar energy cluster. It allowed creating the preliminary list of potential case companies.

Furthermore, owing to well-organized website of the Cleantech Finland - the organization, which combines most of the firms in Finland, meeting the criteria of cleantech business, the author got access to more 81 potential firms for the research participation. Then, more than 100 companies were selected, based on the initial interest in renewable energy sector companies in Finland. Then, another judgment was applied by examining either the company is presented in the Russian market or not, which excluded several dozens of enterprises from the list, though still more than hundred were left. Even though, sampling, described so far seems to be wide enough for conducting multiple-case study, it is worth to note that next step could be the description of self-selection sampling.

According to Saunders et al. (2009: 241), this type of sampling is defined by self-expressed desire of cases to participate in the research. It is usually held through contacting potential participants by e-mail or any other media to receive the respond for researcher's request. Thus, the author contacted each of the left companies by sending email to either precise

manager, responsible for the Russian market according to the information on the corporate websites or social media such as LinkedIn, or HR managers with request to forward the email further to the suitable managers. Among all companies, there was the proportion of those, which did not respond; replied with negative answer due to recent termination of business in Russia; expressed initial interest, but then stopped communicating; and companies, which finally agreed on participation in the study as the case companies. Consequently, there are four companies, which are involved in Cleantech collaboration in Finland, presenting in the target market in different types of performance – from sale office to subsidiary. The interviews were organized with managers, who all have rather long experience in working with the Russian market within either only the case company or through the entire career.

The chosen technique for conducting qualitative research was interview. It enables the author to be both concentrated on the subject and at the same time flexible in every case study, following each interview flow and revealing hidden issues, mentioned by managers (Ghauri & Grønhaug 2005: 140-142). As regards type of the interview, semi-structured interviews were held due to similar reason, mentioned above. Semi-structures interview provides flexibility for the researcher during the communication. Even though general areas of interest are mentioned with preliminary list of questions, but actual interview could be shifted depending on answers and conversation flow with excluding some question for adding others (Saunders et al. 2009: 320).

Interview questions were built on the basis of conceptual framework, presented in the second and third chapters of the study. As it follows from semi-structured interview definition, interviews pursued the same structure with changes in order or additional questions, depending on the conversation flow. Interviews were audio recorded so that all details are taken into account. Moreover, each interview was transcribed by word-to-word in order to respect requirement of objective research as well as decrease time for further summarizing the results and proper quotation of managers' answers. All interviews were held either by phone or Skype with list of questions sent to the interviewees beforehand. As

one of the managers was originally from Russia, the conversation was conducted in Russian, which could facilitate understanding between participants and decrease language barriers problems. Three out of four interviews were made in English. The list of questions is attached as Appendix 2 in the end of the thesis.

4.4. Reliability and validity of the research

There are two core issues, relates to research credibility, which should be taken into consideration throughout the whole research. The first one is reliability, which evaluates consistency of results and could be met by following the criteria of transparently presented links between raw data and obtained results as well as other authors' results observation, which ensure that the same results could be reached by other researchers. The second main part of credibility is validity, which is defined as analysis of either presenting results correspond to the expected nature or not. Among three types of validity, the third one should be taken separately as it pertains to generalization of the results, which could be risky to suggest without solid research findings. It is worth to understand that true generalization could be based upon quantitative research rather than qualitative one with wide sampling and extensive raw data to analyze, which enable generalization of results. By contrast, qualitative research is more subjective due to active involvement of researcher and usually less but probably more detailed cases are taken into account. (Saunders et al. 2009: 156-158.)

As regards present study, the author relies on previous researches and observations, which could improve reliability of the study and decrease the threat of subject error. Moreover, interview questions were sent to respondents well in advance and clarification of unclear questions within the interview was given by the researcher. In order to increase validity of the study, several sources of data collection were used for both theoretical conceptualization and result receiving, which corresponds to triangulation techniques, admitted within the methodological literature. Moreover, all interviews were recorded in

order to obtain all details of conversation later on during the process of data analysis and conclusion drawing.

At the same time, there are several obstacles, which could have negative effect on validity and reliability of the research. First of all, due to extremely limited amount of companies, available for the interview, it became complicated to concentrate on the only form of companies` presence on the market, for example, joint ventures or subsidiaries. Even though all companies are part of Cleantech industry in Finland, generalization of the results cannot be reached due to difference in cleantech businesses, provided on the Russian market and years of experience, which companies have in terms of collaboration with the market. Furthermore, the author`s lack of experience in conducting research could be also taken as the constraint for credibility of the study. Then, first interview could become as the trial with the first experience of making such type of interviews, which led to insufficient amount of obtained information, comparing with the later cases. Even though, generalization of the study is hard to expect, the author assumes that the research could provide perspective insight for companies, willing to enter the Russian market probably when crisis period expires.

Every researcher is responsible for the ethical issues of the conducted investigation. First of all, there should not be any pressure on respondents, if data is collected personally through the interview, for example (Saunders et al. 2009: 160). Based on author impression, what is more important is trustful presenting of the results of the study, even though they differentiate from the expected ones. It is crucial to understand that any results are valuable in term of obtained information, implication and path for further researcher, although limitation of any study is the common practice. One of the crucial facts is drawing conclusion objectively, relying first of all on facts along with personal insight on the context and results.

5. RESULTS AND FINDINGS

The following chapter presents empirical part of the study and its results, gathered through interviews of four case companies. It starts with introduction of case companies with general information, main standardized figures and brief description of performance form in the Russian market, which each of the companies currently has. Then, results of the interviews are discussed according to three main blocks, used in the conceptual framework: formal institutions, informal institutions and corporate governance.

5.1. Introduction of the case companies

There were four companies, agreed on giving an interview for the study. All case companies are part of Cleantech Finland organization, which compiles numbers of companies, providing different service or product solution in cleantech industry both in Finland and abroad. These companies were Akkuser Ltd, Merus Power, VTT and Citec. All companies are Finnish-based enterprises with head offices located in different parts of Finland. Combining factor for all these companies is industry, even though each of them is specialized in different aspects of the business area.

5.1.1. Company 1 - Akkuser Ltd.

The first interview was held with Mr. Jarmo Pudas, Director and Business Development manager of Akkuser Ltd. This company operates in recycling and waste technologies business areas with providing unique solution for recycling batteries and accumulators in environmentally-friendly manner, which enables getting the status of the first company in the EU, providing such technology (Cleantech 2015). Even though the biggest markets for the company are Finland, Sweden and Germany, there are also waste collection held in New Zealand, Austria, Lithuania and Estonia. In term of the Russian market, the company has ongoing negotiation, started in 2011, about expansion to the Russian market as well

(Akkuser 2015). Moreover, there is the Russian-based biggest nickel manufacturing company – Norilsk Nickel Group – mentioned in the list of cooperation partners for Akkuser Ltd. It is worth to note, that the first interview and the case company became the testing one, as it was the first experience of the author and impression of this interview revealed several areas for improvement of interview questions as well as conversation structure. It is worth mentioning, that among case studies, two companies are classified among small/medium-sized companies with number of employees, varying from 11-50, while the rest of enterprises are blue chip companies, reported much more people employed. Akkuser falls into the first category of SMEs and according to the corporate website the number of employees varies from 11-50. Moreover, financial information in terms of turnover is not available, consequently, in the Table 2 below with main figures of companies, some information for Akkuser is missing.

5.1.2. Company 2 - Merus Power Dynamics Oy

The second interview was held with Mrs. Yana Planson, Sales Engineer of Merus Power Dynamics Oy. This enterprise was founded in 2008 and pertains to SMEs as well as previously described company. According to Cleantech Finland (2015), core solution areas for the company are energy and material efficiency, and renewable energy. Basis products of the company, composing product portfolio are dynamic reactive power compensators and harmonic filtering solution, specifically STATCOM system, SVCs and active filters. There are diversified business areas, where company's solution technology is applied, varying from wind, solar power and heavy industry to commercial facilities and datacenters. Business model, followed by the company is in extensive partners' network all over the globe, though production facilities are located only in Finland. All sales and promotion activities are held through partner-companies, which receive the access to one of the leading technologies, provided by Merus Power in exchange for local marketing and sales campaigns. As regards Russian market, the company has been working there for already 4 years and primarily with two main regions – Moscow and St. Petersburg, though product of the company could be installed in variety of factories in other regions of Russia

(Planson 2015). Even though Merus Power is open for providing all manufactured products, STATCOM technology applicable in heavy industry is the most popular one in the Russian market (Planson 2015).

5.1.3. Company 3 - VTT Company

The third case study became leading R&D company in Finland – VTT Company – and interview was held with Mr. Harri Airaksinen, Vice President of the company. Even though the enterprise began its operation in 1942 as the government agency, it became Limited liability Company from the 1st of January 2015, which opens new areas of development within private business with remained funding from the state budget. VTT Technical Research Centre of Finland Ltd continues to be part of Finland's innovation program with direct involvement of the Ministry of Employment and the Economy of Finland (Annual Report 2014). As it is stated on the corporate website as well as Cleantech Finland (2015), VTT is the biggest Research and Development Company in Finland and one of the leading one in the Nordic region. According to the annual report (2014) there are six main business areas, where VTT could provide research and technologies development, which are bioeconomy, low carbon and smart energy, wellbeing, resource-efficiency production, clean world and digitalization. With provided research services, which increase international competitiveness of its customer, VTT received around 70% of positive feedback from customers in terms of improved services, processes or product, received due to productive collaboration with VTT and around 90% of customers have enlarged networking within the partnership with VTT (Annual Report 2014).

When it comes to financial information and other figures for VTT, it accounts for 277 MEuro in 2014 with 21% of which was generated abroad (52MEuro). There are 2 375 employees, working for the company, with 155 of foreigner visiting experts, hired by the company. Among 1390 customers, around 30 % of them are foreign firms. There are separate research units are located in Brazil and South Korea, which enables author to assume that these two countries are one of the most lucrative areas for the future.

As regards the Russian market, it is worth to note that although it is not listed as one of the target ones in the annual report (2014) and VTT focuses mostly on Canada, the USA, South Korea and Great Britain in 2014, the Russian market is interesting for the company in terms of future operation. As the interviewee explained, the representative office in Russia was established in 2007, even though VTT cooperated with Russia before that time as well (Airaksinen 2015). It is worth to note that this office had to be closed 1, 5 years ago due to unmet expectations and insufficient interest from the Russian customers to technologies, provided by VTT (Airaksinen 2015). There is one ongoing project, implemented now in Russia, but at the same time having experience in and impression about Russian market, VTT appears to be valuable case company for the study in the matter of revealing the most influential factors of Russian institutional environment, which hinder cooperation or by contrast could encourage it.

5.1.4. Company 4 - Citec Group

The fourth case company is Citec Group, could become the most solid case for the study in terms of experience, as it has been presented in Russia through subsidiary, located in Moscow, from 2007 when the office was established. Moreover, the interview was held with General Director of Citec Engineering LLC in Russia – Mr. Magnus Forsbäck -who has been responsible for the Russian market within Citec Group from 2007 (Forsbäck 2015). Due to the fact that the company is truly diversified in terms of its offices locations with being presented in Sweden, Norway, the UK, France, Germany, Russia, India and Singapore, it could be worth to mention the main principle of international performance: ‘Global resourcing-local presence’ (Citec Group 2015). It means that each country is self-responsible for operation, but at the same time cooperation between countries is vital if it is feasible and manageable for the company. In terms of international experience, it is also crucial to note that along with offices there are another 116 countries in the world, where Citec delivers its projects (Citec Annual Report 2014).

Citec was founded in 1984 and now it provides multi-discipline engineering, consulting and information management services in three main sectors: Energy & Civil, Oil & Gas and Process & Manufacturing (Citec Brochure 2014; Citec Annual Report 2014). According to the Annual Report (2014) Citec Group shown constantly growing rate for both net sale and EBITDA with 77,226 M EUR and 7,158 M EUR respectively in 2014. Additionally, there are around 1 300 employees in more than 25 nationalities, working in Citec according to 2014 results estimation (Citec Annual Report 2014).

When it comes to the Russian market, among other business areas, civil engineering as well as oil & gas sectors are the most popular in Russia, though not the only ones (Forsbäck 2015). According to Citec Brochure (2014), the company provides civil engineering design services in the civil sector with wide networks over the globe as well as experience and knowledge of international building codes, which enables covering both industrial and commercial buildings areas. As regards Oil & Gas sector, the company provides wide range of services within project management, engineering and information. As it is stated on the corporate website, product range for the Russian market consists of power plants with different capacities, boiler plants, industrial and commercial building, plants related to oil & gas industry as well as processes for manufacturing industry. Following the corporate strategy, there are local people are employed in foreign countries offices, though several of them are managed by Finnish Directors and Russian office is one these offices (Forsbäck 2015). Generally speaking, even though the Russia market does not show so many opportunities to growth as, for example, German market showed in 2014, it remain one of the core markets for the company with several current projects and functioning office in Moscow (Annual Report 2014; Forsbäck 2015).

5.1.5. Summary of the case studies

First of all, the information provided in the previous parts of the chapter, is summarized in the following table 3 with some figures, derived from either annual reports or information on the website. It is followed by explanation of the case studies choice and difficulties,

which have been faced in the search of case studies, which in turn clarify the reason, why particular case companies were chosen.

Table 3. Case companies in figures.

Company name	Year of foundation	Number of employees	Turnover, MEuro	Pilot year in Russia
Akkuser	2005	11-50	--	2011
Merus Power	2008	11-50	---	2011
VTT	1932	2 375	277	2007
Citec Group	1984	1 300	77,226	2007

In order to avoid name mentioning within the text, all managers were numbered, according to the order of interviews organized. Table 4 provides instruction with manager`s number, which would be used further in the text with company name underlined.

Table 4. Managers of the case companies

Company name	Akkuser	Merus Power	VTT	Citec
Manager` number	Manager 1	Manager 2	Manager 3	Manager 4

From the first sight, it could be perceived that four case companies have little in common and then cannot be used as suitable source of information for the research. At the same time, the view would be changed, if reader takes into account several factors. First and foremost, all of the case companies operate within cleaning technologies by providing different products and services. These companies are located in Finland and via collaboration with Russia they promote Finnish cleaning technologies and the whole industry as well. Moreover, four companies could be divided into two groups: SMEs and

blue chip companies. Specifically, first two companies – Akkeser and Merus Power – pertain to small and medium-sized businesses and exist in the Finnish market around 4 years. By contrast, two other firms – VTT and Citec – have longer history and experience in the Russian market. Thus, four case companies provide opportunity to combine it equally into two groups, which could reveal new directions for findings discussions.

Therefore, it is likely to assume that these two blocks of companies could have different impression about the Russian market due to available resources – both tangible and intangible ones - years of experience, and other possible reasons, though all of them have operated in the same institutional environment. At the same time, difference in experience of companies, dependent on the size of enterprise, is only assumption, which could be examined on the real case companies. In other words, after results analysis it would be possible to compare experience of two blocks of companies: SMEs and the big ones. With drawing findings the additional question either the size of the company matter or not in terms of institutions influence on performance of Finnish companies will be answered.

Last but not least is the fact of current crisis in the Russian market, which affects other European countries as well. The market is not appealing for plenty of companies nowadays and searching of companies, which are still presented in the Russian market in the chosen business area, becomes very difficult to conduct. The example of the current study could prove this fact with more than hundred requests have been sent to different companies, but only four of them participated in the interview. Then, any company is extremely important as it could provide insight about the market and enable meaningful research, applicable mostly for companies, which are going to enter the Russian market in the future. As it was mentioned in previous chapters, the study has more perspective purpose to shed the light to rather closed Russian market and enlarge theoretical researches about the market, which are quite limited so far.

5.2. Formal institution influence

In order to preset structured analysis of the obtained results it is relevant to discuss outcome step-by-step, following the main blocks of institutional theory, proposed in the theoretical part of the study. Thus, first section of the results would be devoted to formal institutions with emphasis made on legislation, political and bureaucratic systems impact on Finnish firms` performance on the Russian market.

5.2.1. Political influence and government assistance

When it comes to political factors and governmental policy in foreign companies` attraction, managers stated that political atmosphere has not significantly affected companies (interviews data). It means that either company does not tightly dependent on the local political changes or has already had a long experience so that business climate volatility became natural for companies. For example, managers 2 commented on the political situation as follows:

“Current political atmosphere around the country as well as changes inside the country are not linked with the business area, where the company operate. Moreover, Finnish companies have always been more understandable for both Russian government and customers, even though any changes within the years from the state towards the company – either positive or negative - have not been noted.” (Manager 2, Merus Power.)

Providing more details, it is worth to state comments of Manager 3, who said:

“We have been cooperating a lot with the public sector authorities, but I would not say that politics really has influence on what we have been doing.” (Manager 3, VTT.)

In terms of experienced companies, which probably have been got used to volatile business environment, it is fait to provide comments of the fourth case company:

“Russia has to be generally attractive and big market for the company. Cooperation has improved a lot, evolving from only exporting activities to subsidiary today” (Manager 4, Citec.)

At the same time, it is worth to state that there could be other factors of such positive attitude to the market excluding governmental assistance, received by case companies within the years of operation since it is commonly clarified that government has not provide any considerable assistance in doing business (interviews data). Some could state that owing to direct cooperation in a project as a partner, the government precisely presented in the partnership, even though not as a supporting agent.

“The Ministry of Transport and Communication in Russia has been participants of the project and partly took expenses of the project, being direct part of it, but not a third party” (Manager 3, VTT.)

It is worth to state that government did not affect companies directly, facilitating or impeding firms' performance, which is not positively taken by the author of the study. Before entering the market, foreign companies could find discussions in the literature about notable level of government control and its involvement into the business in Russia, which is perceived as the sign of interest on the state level. Even though extensive immersion of the state into companies' performance is the sign for developing economies, where market-based instruments are lagged behind due to lack of freedom, government support could be taken in a different way. Being the feature of the Russian environment, government assistance is implied as the prerequisite for successful business, which is even if not obligatory, but at the same time could become key element for success. Furthermore, public assistance is assessed as a supporting instrument in specific areas such as innovation (Chadee & Roxas 2013:25). At the same time, even though innovation is chosen as a strategically important direction for development in Russia, there was no support from the state provided for the company, working in R&D industry with sufficient important

experience and knowledge, which could be applied in the Russian environment (Manager 3, VTT).

5.2.2. Legal environment influence: regulation and corruption

Another issue, discussed with managers, was related to legal environment and legislation system`s effect on the business establishment and further development. Combining comments of all companies it is fair to say that legal environment in the particular industry does not enrich companies` operation in the market. Coming back to the theoretical part of the paper, it is worth to mention Decree № 449, Innovation strategy of development in Russian 2020 and other constantly amended regulations, where cleantech industry in the form of energy efficiency technologies and alternative sources of energy is promoted and stated as a strategically important. At the same time, the reality is different and expressed intentions are far from the proper implementation. For example, VTT Company commented on that:

“Perhaps, legislation in the Russian market is not on the level, which encourages people or companies to invest” (Manager 3, VTT.)

Moreover, lack of equal regulation in Russia is considered as one of the main constraints for Akkuser Ltd., which operates under the recent EU parliament and council directive for battery and accumulator recycling, issued in 2006 and implemented in Finland two years later (Manager 1, Akkuser Ltd). Another company experienced volatile legislation in Russia, which sometimes “comes as a surprise”, though it does not prevent the company directly, but cannot ease the general situation, when new discussions about changes in regulations are often arises, even if real actions are not followed (Manager 4, Citec). Similar expression about unstable laws and rules in the Russian market was given by the second case company, even though it does not directly affect the company, but through its partner (Manager 2, Merus Power).

Based on the suggestions, stated in the theoretical part of the work, vague legal environment could trigger bureaucracy and corruption, spread within the country, which inevitably impedes doing business procedures. Even though, there was a long discussion in the theory about the corruption issues in emerging countries in general and Russia as one of them, it is worth to note that corruption have not affected companies directly, relying on the interview data. Most of the managers were aware of this issue in the market, but more as a widely discussed problem, than the real case.

“I do not have something negative about this market. I have not been in contact with any person, asking for a bribe.” (Manager 3, VTT.)

Some companies have a very strict inside policy about any corruption issues, which prevents them from being involved in any potential corruption practices. In case of wide chain of partners in the market without autonomous subsidiary, for example, corruption became the issue for partners and then indirectly could affect Finnish enterprises (Manager 2, Merus Power). As an example of the considered results, the comment of one manager could be provided:

“Everybody talks about it and it is always two prices for services - fast truck of doing things and slow/normal one. At the same time, we have never faced with corruption directly; we have a very strict policy that even if it would be visible, the company would have stay outside.” (Manager 4, Citec.)

Generally speaking, even though comments of the managers are slightly different from the overview to the corruption issues, given in the theory as well as Transparency Index, the discussed findings should be clarified. Corruption in Russia could be interpreted as the hidden institution, since everybody talks about it, but nobody directly faced with that. Probably corruption inhibits foreign performance, but being on the advanced level along with visual fight against corruption through legislation and OECD principles adoption, it has become more informal, even though has not disappeared. When it comes to Finnish

neutrality to the corrupted practices in Russia, it could be explained by corruption distance concept, mentioned in the theoretical part of the paper. According to Transparency International, the difference between two countries is considerable with 27 points for Russia and 89 points for Finland in 2014, taking into account that the higher the rate is, the cleaner is the country. Such gap could be found in Finnish managers' reaction to the discussed issues of corruption with awareness about the whole issue, but not a real involvement into it, even if it would be required.

5.2.3. Bureaucracy

There is another concept, which was widely admitted among the managers and could be treated as the consequence of ambiguous legal environment. The issue is bureaucracy and its penetration into the business climate of the country. It is worth to note that most of the managers noted the fact related to high level of bureaucracy in the market and time-consuming procedures for paperwork, especially comparing it with Finland.

“The time for getting all licenses and permits is usually underestimated by Finnish companies” (Manager 4, Citec).

Opinion about bureaucracy does not vary a lot, depending on the size of the company for the first enterprise, being classified within SMEs, has also mentioned it as the restraint for business.

“It takes time to establish business in Russia due to complicated procedure.” (Manager 1, Akkuser).

As well as previously mentioned company, another example of MNEs could be given and its` experience of bureaucratic procedures on the Russian market.

“I have to say that the level of bureaucracy is very high. It has been quite amazing to know that even easy type of operation required a lot of paper work and influences from different types of authorities” (Manager 3, VTT.)

Based on the interview data it is fair to state that companies` experience in the Russian market and managers` comments on it verify the claims of the World Economic Forum, expressed in the Global Competitiveness Report (2014-2015) about corruption, bureaucracy level, and tax regulation as one of the main problems for business in the Russian market. As manager 4 said:

“We have always talked about bureaucracy and it has been through my whole career. It is even unexpectedly high, comparing with what we used to have, working with other European countries” (Manager 4, Citec.)

Overall, it is probable to claim that theoretical suggestion about negative effect of regulatory quality on companies` performance, proposed by Chadee & Roxas (2013:23), is confirmed by the received results since most of the managers commented on bureaucracy level and corruption as constraints of doing business. At the same time, logical explanation of both bureaucracy and corruption practices presence in the market would become inconsistency within the legal system. The last statement is justified on the basis of obtained interviews` results. Additionally, time-consuming procedures in getting all licenses and permits as well as registering the property, mentioned by managers to some extent, is in line with the quite low rating for ease of doing business in Russia, mentioned in the theory. Even though there were several upwards shift for Russia within recent two years, it still lags behind Finland considerably with 62th rank and 9th rank for countries respectively.

There is a lot of information on the media as well as within researches about bureaucracy level in Russia. Consequently, it is possible to claim that companies are partly prepared to the reality and, therefore, include additional time and money expenditures to the transaction

cost of doing business in Russia, though still underestimate these expenses. In terms of government policy towards international companies it is worth to mention that even though undue public intervention to the business was discussed within the previous chapters, it is fair that strategically chosen areas require government support and funding, which is missing on the basis of the interviews` data. In order to encourage foreign investment inflow, the government should monitor development results within the industries and what is more important to create favorable business climate for foreign partners. (interviews` data.)

5.2.4. External agencies and business infrastructure

Last but not least institution within the formal block was external agencies and infrastructure, appealed for facilitating activities in the market for both local and foreign companies in the form of consultancy companies, market research agents, government association and etc. Based on the interviewees` responses it is likely to assume that this type of institutions is not appropriately developed since most of the case companies have not found connection with that type of agencies as helpful way to enter the market and manage operation, except the first company. As manager 4 replied on the question about help of extensive companies` network in the ongoing performance:

“No, we did not have this type of companies; the only exception is on purely juridical company, which handled with the registration and accounting issues. I don`t think that even if we have more consultant companies, the process could have worked smoother and faster.” (Manager 4, Citec.)

The second case company - Merus Power - did not find involvement of the third party as helping hand for sales activities, even though informal connections play important role for business, but this part would be discussed in the next chapter. The third company expressed certain disappointment about insufficient presence of business development agencies, even in the special economic areas. Moreover, there are no well-established consultancy

companies, assisting with paperwork and other bureaucratic procedures, could be easily found by foreign companies on the market. When it comes to the first case company, which expressed different view to the issue with positive attitude to the external agents, by finding them as a supportive power in the market, it is likely to assume that experience in this area matter. Companies commented on business infrastructure as insufficient and weak, have longer experience in the market and, probably, have already revealed difference between supposed and real assistance, while new entrants are more optimistic to the situation. (Interviews data.)

In order to illustrate obtained results in a more visible way, the following table 5 is presented, where main results according to analyzed institutions are provided. More detailed information is discussed above.

Table 5. Formal factors influence on the case companies.

Company Formal Institutions factor	Small and medium sized companies		Multinational companies	
	Akkuser	Merus Power	VTT	Citec Group
Political environment	not specified;	no impact noted;	has not influenced;	has not influenced;
Government assistance	modified assistance, i.e. in legal issues discussion, not bonuses;	does not applicable for the form of performance on the market;	has not received any public assistance;	has not received public assistance as non-investing company;
Legislation	main obstacles;	not related, though volatile legislation for local partner;	not on the advanced level;	changeable, sometimes comes as a surprise,
Bureaucracy	complicated procedures; precise constraint;	not specified;	very high level;	unexpectedly high
Corruption	not at all;	not directly. Mostly for partner;	not directly;	not directly,
External business infrastructure	Helping power;	not very helpful for doing business;	Insufficient development;	did not have this type of companies;

5.3. Informal institution influence

As it suggested in the study model, informal institutions have a more remarkable influence on the performance of foreign companies. Therefore, the following chapter presents gathered information about unwritten norms and values, which determine conditions of doing business in Russia and affect foreign players.

5.3.1. Inherited from the past values

Comparing results of the interviews with theoretical statements, presented previously in the study, it is worth to note in the beginning that North`s suggestion about path-dependent nature of institutional environment formation (1990), is clearly verified for the Russian business climate with appeared features, inherited from the Soviet past. Additionally, as informal institutions compensate weak formal ones, historical roots could be reflected more notable in forms of beliefs and attitude to foreign business rather than formal regulations.

With having interviews` results received, it is fair to note two commonly discussed issues of distrust in Russia to foreign companies and suspicious attitude from society towards the state, which are inherited in the past and still urgent for Russian business (Batjargal 2008:32; interviews data). Being deeply rooted in the history, these two constraints underline process of doing business with foreigners. Moreover, any actual reformation is time-consuming in terms of implementation and society acceptance. All companies experienced these problems, although in different forms. If some of them faced lack of understanding towards business area, other enterprises revealed constraints in the process of doing business, which are caused by mistrust toward foreigners. For the former the following citations are provided, given by managers of both multinational and small companies:

“Russian companies were not ready to buy R&D from abroad. I would say it is not about Finland, it is “not from abroad”. Culture is not on that level to consider paying such type

of money for this kind of technology development services, which the company provides.”
(Manager 3, VTT.)

“Government seems to be helpful, but in the reality it takes more times and meetings are delayed. Common understanding what to do it needed” (Manager 1, Akkuser)

At the same time, two other enterprises faced with delays and other constraints. Even though they are presented in the market with customers` chain and ongoing activities, Russian distrust is reflected for this type of companies as well.

“The difficulty and the lack of trust from different authorities towards anything you want to do and old-fashion style of doing business.” (Manager 4, Citec)

“Finns are open to further cooperation and development on the Russian market, but it mostly depends on how the Russian side would comment on that” (Manager 2, Merus Power).

There is one more issue worth to discuss, which correlates with the previously mentioned ones. Except that distrust to foreigners, passivity of the society to support any reformation and implementation of innovative technologies and etc. is high. It triggers considerable time taking for reform and new regulations implementation as well as new business model and working approach.

“EU regulation law was discussed with environmental authority in Russia and it is not in force yet for Russia” (Manager 1, Akkuser).

It is fair to note that the company, mentioned above started discussion with the Russian government about regulation enforcement in 2011, but there is no clear results have been reached yet, even though discussions are permanently held. Inactive behavior of the state

and business in Russia could also lead to termination of the activities in the market, which was the case for one of the companies.

“Political situation was not the reason why we closed the office, but mainly that the society and the market were not ready to cooperate with us.” (Manager 3, VTT).

Passivity of the Russian society towards reformation was suggested by Schröder (2010:2) and mentioned within the theory of the paper. Relying on the interviewees` comments, it is possible to confirm this restraint existence (interviews material). It is important to understand that not only customers, but also local companies with shareholders, who make decisions about business development and partnership with foreigners, are included in the concept of society. Thus, progressive foreign technologies and business models are skeptically perceived in Russia in the analyzed industry and, consequently, local networks and connections become one of the key prerequisite to success.

5.3.2. Networking and personal connections impact

Even though networking issue is not taken into account by most of the interviewed companies, all of them claim importance of local employees and informal connections. Local connections definitely simplify the way of doing business, based on the received answers. These findings correlate with opinion stated in the previous chapters about distance between two analyzed countries and existed necessity for local agents and connection in case of considerable distance in, for example, culture, corruption and so on (Estrin, Baghdasaryan & Meyer 2009: 1176). Relying on the derived information from the interviews, it is possible to imply that success in entering the market is determined by either local agents exist or not. Some companies follow the strategy of operation on the new markets through partner chain in order to avoid risk of investment for establishment subsidiary, joint venture or representative office, while other outsource some business activities such as accounting and taxation in order to have local enterprises, dealing with it. There is another way in finding local partnership first without joint ventures establishment

in order to guarantee protected approaching of the market. So, there is plenty of ways to cooperate with local agents, which are favored by foreign companies. (Interviews data.)

It was not a surprise when dialogue with managers touched informal connections importance on the Russian market. This part of the interview questions was equally answered among interviewees, who admitted the high effect of this issue on performance in the market.

“You have to know the right person, connections, who can recommend your company. It is really important.” (Manager 3, VTT.)

There is the principle as “the more the better” could be applicable for this type of question, according to one manager’s opinion.

“Informal connections have always been very important in Russia. It helps companies to find new customers and explain benefits of our products. Information could be spread better.” (Manager 3, Merus Power).

The first case company commented in the beginning of the interview, that cooperation with the Russian market is organized through existed connection both in business and on the public level (Manager 1, Akkuser). At the same time, the whole picture could be slightly different or amended by specific changes in the market for companies, which have a long experience of performance in the market. According to the fourth interview, the following comments were received:

“Traditionally, Russia has been the country of private contracts without which you are not supposed to be successful in the right project. But our approach is a bit different. Let’s say that informal relations could help you to be on the right place at the right time, but it very seldom can help you to win the contracts. I still think that in order to be successful in the

market not only informal relations needed, but also the list of competence, list of references, trust level.” (Manager 4, Citec.)

Thus, it is probable to assume that companies with long experience in the market can critically assess each institution and reveal essential characteristics of them. It is shown on the example of personal contacts, but as the author implies the longer company works in the market, the more directions and features become available. In terms of experience and its impact on performance in Russia, more mature companies illustrated clear link between years of experience and performance success in the Russian market.

“Everything has changed and most for the better and I really see hat Russian market has developed. Some order has been added. Generally, climate of doing business in Russia has become clearer and risks have reduced and so on, but still many things to do. It is just the start in the Russian market.” (Manager 4, Citec.)

The comment of another experienced manager was shorter on the question about experience impact, but not less valuable as he told:

“Oh yeah, of course, experience can ease the performance on the market. It is the self-evident.” (Manager 3, VTT.)

Even though two other companies did not comment on the same way, but it was commonly accepted that four years of experience is insufficient to be aware of some issues, while 10 years was proposed to be the average time framework as a solid experience in the Russian market (Interviews data.) Generally speaking it is worth to emphasize the fact of that received results lead to the suggestion, that personal contacts are perceived not only as constraint, but also as a supporting and linking means of partnership creation in the Russian market, which is in line with the theory, proposed by Mattsson & Salmi (2013:191) and Ledeneva (2009:265) about assistant role of informal connections. As Manager 2 argue:

“Personal contacts have always been crucial in Russia. Though, it is not the constraint, but peculiarity of doing business.” (Manager 2, Merus Power.)

Moreover, more experienced companies also claim that even though the level of personal connections involvement in the business is not as high in Finland as in Russia, but this is perceived as characteristic of the market among other, so company get used to that.

“It depends on experience. I have experience on the international/ EU level, I would say that you get used to the society, which are not so open as Finland and other Scandinavian countries.” (Manager 3, VTT.)

At the same time, it would be too simple to take into account only one side of possible effect, which personal relations could have on the foreign companies. According to interviews` results, it is worth to state that Finnish foreign companies in the chosen cleantech industry have got used to personal contacts importance in the Russian market and try to follow this requirement. However, it does not mean that these connections affect performance only on the good way. First of all, personal contact dominance in the business environment is non-natural for Finnish companies and, consequently, not positively perceived. Moreover, based on the Russian reality analysis, it is fair to suggest that informal institutions power in Russia partly trigger corruption and bureaucracy institutions, which cannot be assessed positively. Overall, it is worth mentioning that Finnish companies perceive personal connections as prerequisite for success and they have adapted to such reality, but at the same time, informal institutions dominance hinder development and cooperation for foreign companies, making some information closed as well as powerful authority unavailable.

5.3.3. Information institutions of the Russian market

There is the concept of information asymmetry as well as trustful resources availability, added to the framework of this research, even though not so many authors revealed this

institution impact on foreign companies' performance in Russia. In line with respondents' answers, the idea could be proposed that information asymmetry is the common practice for Finnish cleantech companies, working in Russia, but at the same time managers perceive it as usual way of doing business for foreigners in any country in the world. As one of the managers stated:

"I think it is normal in all markets. When you come from abroad, it is always like that. Domestic players know more than you." (Manager 3, VTT.)

At the same time, the issue of information asymmetry does not relevant for each case company as some of them did not have something to comment on that, though it could become the case later one, when more extensive network within the market will be created. Another multinational company as well as the one, mentioned above, commented on information asymmetry as follows:

"It is very common situation because of the style of competition on the market; It is more "who knows whom and who do what" and it is not the matter of being either foreigner or not. It is not only for Russian market, it could be common way: official information is published, but informal one is closed, though being important one for real decisions and decision-making process" (Manager 4, Citec.)

Both managers of multinational companies mentioned the importance of being prepared to market features, especially to informal ones. It could be taken in terms of market research before entering the market as well as further exploration of the hidden practices and finding access to them. Moreover, it is better to find trustful information beforehand, which could become crucial for development of the company.

"Purely official tender is not the place you can win if the company only registers and participates, but is not involved in the process beforehand; it is more about awareness of projects in advance. Information does not so open and correct." (Manager 4, Citec.)

According to the manager of the second case company, significant mentality difference is reflected in information sharing procedures since the Finnish managers cannot always perceive all information as well as some features, particular business case or contract, existed in the market (Manager 2, Merus Power). At the same time, relying on the comments of experienced companies and implying that small and medium companies have not faced with information problems yet, it is possible to state that information within the Russian market does not open and transparent. Consequently, it conceals the opportunities for foreigners, which could trigger requirement for foreign companies to be profoundly involved in market research before entering the market through self-sufficient investigation or with marketing research agents, existed in the home or host country - Finland or Russia respectively for the study. Both managers of multinationals mentioned importance of knowledge, gathered before actions.

“In this sense (availability of trustful information sources) building contacts in the knowledge stage is very vital.” (Manager 4, Citec).

“It is all about either you are well-prepared or not.” (Manager 3, VTT).

However, it is fair to state that common answer for the question about market research, conducted by companies before entering the market, was negative, i.e. companies were not involved in market investigation stage before entering it. Decision about Russian market was either new customers` driven or huge potential for specific business area. Moreover, some companies hired experienced managers with relevant background and customers` databases for the Russian market and, consequently, the requirement of market research was vague. (Interviews data.)

5.3.4. National culture

Culture was also included in the model for the research and then it is worth to separately discuss results, which are either confirm the theory or not. Due to the fact, that asking

managers about Hofstede's dimensions could be tricky and lead to misunderstandings, then it is more applicable to critically analyze obtained results and try to apply them, when it is possible, to theoretical dimensions, stated above.

It was clear just from the figure 5 that two considered countries are significantly different in terms of national culture dimensions. Being the part of institutional environment, culture is reflected in business as well since both the former and the latter are created and developed by the same people with the same values and behavior. According to Hofstede (2015) Russian culture belongs to collectivistic one with usual collectivistic behavior and decision-making attitude. This fact is partly proved on the basis of the held interviews. From the one hand, in terms of information sharing and network creating with selfish performance, local companies could be classified within the individualistic culture (interviews data). At the same time, when it comes to decision-making in the work place, experience of one of the case companies is really viable. It pertains to differences in working approach, when Russian employees do not get used to individual responsibility for the work and strong leader is required.

“The biggest issue is that Scandinavian style of working does not suit everybody. I would say that Russian employees need to have a very strong good leader, strict boss who really tells them what to do and how to do it. Some people misread independence with freedom in the work place.” (Manager 4, Citec.)

At the same time such attitude to work cannot be spread to all employees since some of them are open-minded and ready to retrain for new working conditions. Even though it is rather complicated to generalize obtained results, the author would suggest that described attitude to work is rooted also in the past. Based on personal experience and knowledge of the market, the researcher would say that opportunistic behavior of top management, personal connections power over competences have led to habit among the people not to be responsible for the work since it could turned to be against employee in the usual working place. At the same time, such norm has been formed within the last several decades, after

the Soviet Union collapse, when inexperienced, but assertive people became shareholders and real bosses for more competent employees. The fact that some young employees aim at international companies due to different working approach and conditions, trigger suggestion that mentioned above habit is not deeply rooted and impossible to change. Therefore, Finnish companies should be aware of potential difference in the working approach, but with careful recruitment policy suitable employees with ability to learn and adapt quickly would be found. Coming back to Hofstede`s dimension, it is possible to state that either more extensive research is needed to make general conclusion or volatility in the Russian market is so high, that pragmatic decision would not be made anyway.

The author of the research expressed the opinion, related to uncertainty avoidance dimension, which was opposite to the proposed rating, based on the Hofstede website (2015). Relatively high rate for uncertainty avoidance intend to be built in the form of clear rules and regulations, which are obviously missed in the Russian business environment with justification, proposed in the previous part about formal institutions influence. If the reader assumes significant difference in the reality of legal environment between countries, which was also mentioned by managers, then uncertainty avoidance dimension should be different. Some comments about unpredictable business environment in Russia are stated below.

“It is very common for Russia that too many possibilities are left to interpret, implement different issues, which are not clear and straightforward” (Manager 4, Citec).

“New regulations are relevant for our partners, not for us, though our company is directly influenced by often changes in rules in Russia, which is uncommon practice in Finland.” (Manager 2, Merus Power).

“It is quite difficult to predict how things will go” (Manager 3, VTT).

There is another relevant dimension to discuss, which could be interpreted with interviews results. According to orientation dimension, Russian people are committed to change traditions for the benefit of future, though as author assumes it requires rather progressive attitude to life and business. With discussed above passivity within the society and distrust towards reformation procedures, it is difficult to pertain such type of culture to progressive and future-driven one. Overall, analysis of cultural dimensions requires more case companies to consider. The, different results would be obtained, which makes comparison more valid with solid explanations. The author discussed dimensions selectively on purpose, since only the most relevant according to the received results were presented. The same table visualization technique is chosen to provide summarized results of the informal institutions` influence analysis. The following table 6 presents some of the findings, though full information about relevant discussion is illustrated above as usual.

Table 6. Informal factors influence on the case companies.

<div>Company</div> <div>Informal institutions factor</div>	Small and medium sized companies		Multinational companies	
	Akkuser	Merus Power	VTT	Citec Group
Old-style of doing business	Lack of understanding within the society	unclear nature of Russian side comments` on further cooperation;	unprepared culture for services of the company;	lack of trust towards foreign business; old-fashion style of doing business;
Networking and personal connections	it helps to work;	have always been very important; the more, the better;	it is really important;	Russia is the country of private contacts;
Information asymmetry	not specified;	not specified;	it is common for all markets;	it is very common globally;
Trustful sources of information	yes and no; depends on the type of information;	mentality difference is reflected in information sharing procedures;	it varies a lot; depends on institutions and authority support;	information does not always open and correct;
Market research	not specified;	it was not required;	was not conducted carefully;	was not conducted carefully;

5.3.5. Corporate governance

It is difficult to overestimate the impact of corporate governance to foreign companies operation as it provides transparency for both sides of collaboration and decrease the discomfort of information asymmetry for foreign partners. After careful consideration of the literature, the author decided to include corporate governance to the conceptual framework of the study as the separate block of institutional environment. However, after conducting interviews, the author has to provide clarification about corporate governance relevance to the current study.

At the beginning of the study corporate governance was supposed to be observed in a wide manner with focus on inside policy, which could either encourage foreign companies to invest or hinder opportunities for foreign direct investment inflow. However, it turned to be true that corporate governance along with property rights issue is applicable only for equity-based strategies of companies. During the theoretical part writing, the author of the study did not expect to face such a significant problem in finding case study companies that is why corporate governance was still included to the study. However, after current situation overview with lots of companies, terminated activities in the Russian market, or simply kept silence as regards interview participation, there were only four companies remained for the study conduct. Then, based on the description of the companies, corporate governance part of the interview was left as an additional one in case of relevant conversation flow or some details, being revealed during the interview. Unfortunately, none of the case companies perform in Russia in the form of equity-based partnership. Two of them operate on the market through the contract with local partners; the third one has recently closed representative office, though participating in one ongoing project; and the last one has subsidiary, 100% owned by the mother company in Finland.

To sum up, it is fair to state that corporate governance as a concept would remain worth part of the institutional framework as a separate element, although it does not applicable for the study due to either recession period of time in the market with lots of companies leaving

it or chosen business features with insufficient cooperation between two countries in the cleantech industry and majority of Finnish companies on the initial stage of entering the market. Both of these factors could have combined influence on the case companies search, but all in all, the following findings could also become valuable as illustrate the current market conditions, even though one part of the proposed framework is left without expected attention. At the same time, the author of the thesis assume that although case companies were not relevant for corporate governance issue testing, this block of institutional environment should be remained for further research, either conducted in other business areas or for the same industry, but later in the future. Then, in the following figure 7 the modified model is presented with excluding corporate governance block due to its irrelevance to the current study.

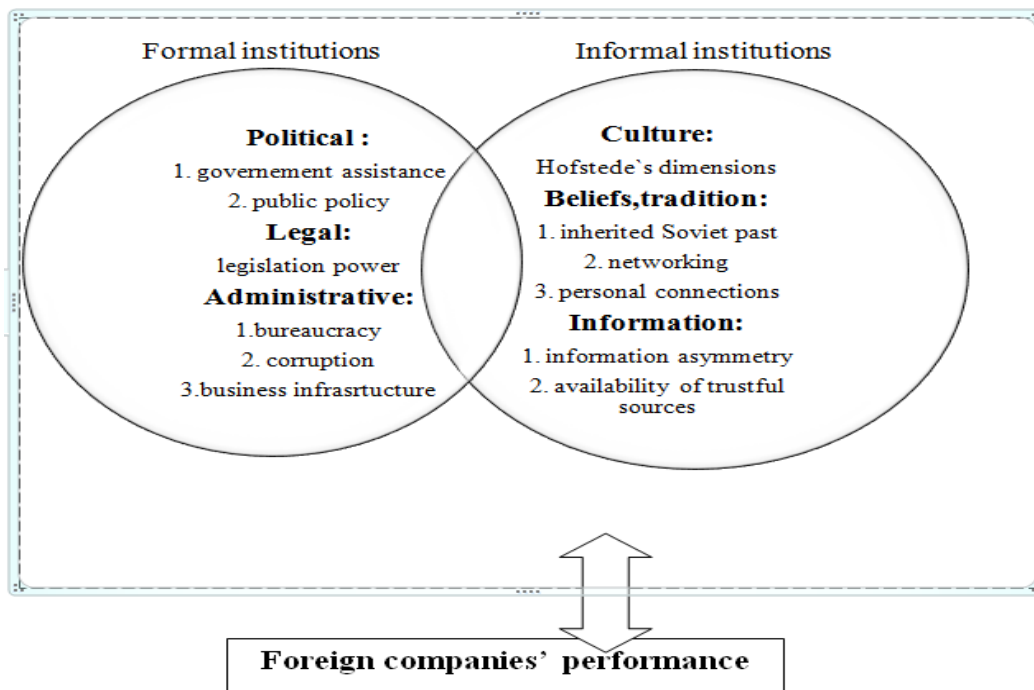


Figure 7. Modified study model

5.3.6. Future plans and expectation for the market

Each analysis should be summarized, which will be conducted through providing managers' attitude to the market and companies' future plans, regardless of constraints, which were discussed above. It is worth to state that none of the case companies expressed negative attitude to the Russian market, which means that Finnish enterprises in the chosen industry and probably in general are still tolerant to the Russian environment and open for communication, even though current geopolitical situation complicates it. The widely admitted obstacle in Russia is immature nature of the market in cleantech industry and lack of understanding from both the government and society level the importance of technologies, provided by the Finnish cleantech companies. According to the interview,

“We are sort of stand by and wait what is going to be in the market. Political situation was not the reason why we closed the office, but mainly the society and the market were not ready to cooperate with us. If market becomes more mature, there will be good opportunities to come back.” (Manager 3, VTT.)

Additionally, another mature company also assumes that even though current situation has influenced operation in the market, but at the same time as any crisis it could reveal hidden opportunities and encourage investment to precisely important industry, which have already been developing in the world for a couple of recent decades.

“From the one hand, we do not have the reason to leave the market, as many other do. From the other hand, we do not see the market/opportunities growing; there is completely lack of investments in some sectors.” (Manager 4, Citec.)

For smaller companies, there are still many hidden opportunities and ways to develop in the market. When it comes to the first case company, the main obstacle pertains to regulation adoption in Russia. When it will be done, company is going to expand in the market.

“Very narrow business, we are logging in with several projects, one patent technology. When regulation is ready to use, the company is going to expand with partners in Russia.”
(Manager 1, Akkuser.)

The second company, related to the SMEs block, also considers future development in the market with long-standing partnership contracts. At the same time, even though Finnish side is co-operative, the most important element of success depends on Russian actions and availability to communicate within transparent framework of rules, policy and trustful partnership.

“We are ready for network extension and communication with Russian partners either new or time-proven ones. At the same time our company requires similar transparent and fair cooperation as Finnish side usually provides.” (Manager 2, Merus Power.)

Generally speaking, the obtained results became contradictory to initial case companies search since all managers positively commented on the market and future perspectives. The potential is still evaluated as high and market as big and quite close to Finland, which undoubtedly facilitates communication between partners. Therefore, the results and findings would become useful not only for Finnish companies, but also for the Russian ones since it provides justification from the Finnish point of view that investment is required to strategically important sectors. Based on the theoretical part and presentation of energy landscape in the world, it is worth to assume that cleantech industry with alternative sources of energy as well as energy efficient technologies are going to be demanding globally with the years, falling to the category of key industry and energy source. As Russia is only in the initial step of developing cleantech, being behind western countries as Scandinavian countries or Germany, it is worth to claim that fruitful partnership with companies from these countries is crucial for progressive development.

6. CONCLUSION AND DISCUSSION

Following chapter is the closing one for the current study. Therefore, main conclusion will be drawn, which is based on the received results, presented in the previous chapter. Moreover, limitations of the study as well managerial implication of the research will be provided further. Due to the fact that conclusion is made on the basis of theory, which was examined in the case studies, but individually by the author, it is worth to state that only several references would be provided, though most of the text is presented as personal point of view and opinion, which the author expresses.

6.1. Summary

Bearing in mind that the main goal of any research is in answering initial question, it is logical to come back to the research question and remind it one again. So, the research question of the study was stated as follows:

How institutional environment of the Russian market affects performance of Finnish companies within the cleantech industry?

Then, within the following part the answer to this question should be derived. It is fair to state that regardless of the obtained results, the author suggests that the chosen research approach – abductive one – has proved its relevance to the study. As it was stated in the methodological part of the research, namely abductive research approach could be taken as the latest technique, available for conducting researches since it combines characteristics of two traditional ones – deductive and inductive. Bearing in mind the fact that every next alternative should be better its predecessors, it is worth to assume that abductive study has incorporated the most important parts of commonly used approached for the benefit of research. In terms of the current study it should be claimed that owing to abductive approach, the author could made the research logical and consistent. Specifically, the first

study model, built on the theoretical background, was supplemented first on the basis of Russian institutional environment overview and modified later on after receiving results of the study.

Having research done with observed literature background and received knowledge from the interviews, it is sensible to note that the Russian Federation remains unexplored market with many hidden areas, which could either encourage or impede companies' activities in the market. It could be explained by lack of information about the market and high applicability of the literature, written in the Russian language, which becomes available only for the Russian-speaking world. International organizations such as the OECD, the World Economic Forum, the World Bank as well as many private huge consultancy enterprises such as Ernst & Young, KPMG and etc. facilitate access to information about the Russian market, though it could be not enough for full picture of the reality. This feature as well as other inherited Soviet traditions has reflected in the institutional environment, which is clearly shown on the example of received findings of the research.

Following the topic of traditions and values, existed in the market, it is worth to state that according to Hofstede's suggestion, cultural changes are usually time-consuming and what is more important to understand it is the fact that one culture cannot separately change, but the block of countries is followed, which leads to the same difference between countries and cultures, since all of them have shifted from the initial point. Moreover, based on the history retrospective, severe conversion of the mentality was frequently caused by revolution or catastrophe such as the World Wars and etc., when external factor or escalated inside conflict led to changes within the society. Otherwise, mentality along with new values creation requires a long period of time within generation, for example. At the same time, significant deviation, described above, hopefully would never repeat nowadays in the humane 21th century. Thus, cultural difference between Russia and foreign countries in general, including Finland should be taken as given conditions and, consequently, companies should try to adapt to them than resist.

As it was stated in the theory and used later for conceptual framework creation, informal institutions play more remarkable role than formal ones in emerging countries due to the weak nature of the latter (Rose et al. 2012; Peng 2003). This fact could be confirmed within the present study, since most of the case companies actively commented on elements, related to the informal institutions, such as personal connections, informal contacts, information availability, networking and so on. Moreover, some companies admitted the fact that informal connections are sometimes exceed the virtually existed formal rules. Networking as well as informal connections simplify new contacts creation as well as promotion of the company in the market, which in turn is very important in such big markets as the Russian one. It is fair to note that in the beginning of the previous chapter the author intended to compare the impact of institutional environment on SMEs and MNEs, if it would be applicable. That will was caused by the fact that four case companies could be equally divided into two respective blocks of companies.

When it comes to general summary of the results about informal institutions` influence, it is worth to note that even though their importance is equally high for all companies, but multinational enterprises are more consistently involved in the market activities and, consequently, reveal different angles of personal networking. Namely, connections themselves cannot guarantee success in the tender, for example, but experience as well as information gathering along with contacts creation in the knowledge stage is crucial for success. In other word, the way how contacts could help should be analyzed, albeit these skills are developed probably within the years of experience in the market, not immediately after entrance. Moreover, informal asymmetry issue is also differently perceived by two blocks of companies. If small companies have not shown awareness of such issue, the bigger ones commented on that as a common practice in the Russian market. However, it is worth to note that managers of multinational enterprises, participated in the research, have also considered information asymmetry concept as globally presented challenge, not only applicable for the Russian business.

At the same time followed by information asymmetry conversation, managers of experienced companies have stated the high importance of knowledge about the new market in the initial stage, which determines further ability of the company to critically analyze received information as well as find the ways to apply it. In other words, market research should be conducted before entering the market, which could simplify further performance of companies in the market. However, it was unexpectedly found, that although preliminary knowledge about the market is essential, none of the case companies made it before entering the market. Thus, firms' adaption to the Russian business reality took more time due to the fact of unknown features. It could be tricky to understand the reason, why companies did not conduct investigation about main market characteristics, but at the same time it is the area, where previously mentioned closed nature of the market and unavailable information are revealed.

Bearing in mind the above discussion, the author would like to emphasize the fact that all managers confirmed considerable value of local people, either working for the company or being the partner in the market. Small companies illustrated the pattern of entering the market through contracts with local partners, which promote the company in the market and distribute the products/service. Such type of performance does not require actual presence in the market with representative or sales office, but provides opportunity to sell product to the Russian customers. By contrast, direct investment into manufacturing facilities creation or subsidiary establishment could require more resources and wide knowledge about the market, obtained within the market research, made well in advance before entering the Russian market.

The author of the study assumes that with proper knowledge about the market, companies could be more open for solid operation. Relying on the admitted importance of the local people with valuable knowledge possession, the author would assume that market research is also the area, which would be better accomplished by Russian specialists, who have the access to both Russian sources of information and the globally available one owing to English language fluency as the prerequisite. Furthermore, as working approach varies

between employees in Russia and Finland, which becomes another obstacle for Finnish companies, the author suggests that Russian specialists, available in the Finnish market, would be the best alternative for companies. In other words, Russian person with relevant study or work background, received in Finland, has already familiar with the Finnish working customs and, consequently, would work for the Finnish companies according to the unwritten requirements for it. At the same time, this particular person owing to Russian origin is aware of particularities of the Russian market, common practices there and what is more this potential employee has an easy access to the Russian sources of information. Overall, having Russian employees hired at least for the market research aims, Finnish companies obtain valuable worker, who first of all, is able to work according to the Finnish guidelines and, secondly, could provide market analysis for the company with more details and specifications, available only for originally Russian people.

Another issue, which is included to the informal institutions` block in the study, but in fact has linked with the formal institutions as well, is inherited values and traditions from the Soviet past, which hinder market development and complicate collaboration between two countries. It is fair to state that this heritage as well as mentality has usually deeply rooted in the history and then very time-consuming to escape. At the same time, previous values of the centrally planned economy have reflected in many areas. For example, given plans and usually strict hierarchy in the Soviet firms have trained people to work without taking precise responsibilities. After the Soviet Union collapse, market-based economy was built in a limited amount of time with inevitable mistakes. One of them was open access almost for everyone to companies` management, which led to unskilled and inexperienced owners of companies within the whole country, which remains nowadays, complicating external cooperation and long-term orientation in Russia. Then, having flourishing personal connections power over the experience and knowledge, Russian people have not changed their working approach since taken responsibilities do not guarantee relevant appraisal, fair working condition and career progression. Furthermore, society passivity and distrust to both public reformation and foreign companies` performance, which have been mentioned

by majority of the case companies, have rooted in the history and recent years of market-based economy formation in Russia.

The fact that Russian culture was restricted by tight limits within the Soviet period, has led to the current situation, when culture is not fully prepared for technologies, provided by Finnish cleantech companies. The society does not similarly innovative as Finnish one and people are not aware of alternative energy benefits, which should be promoted by the state in the environment, which is not developed enough to perceive such technologies without public efforts. There were two examples – one from each block of the companies – justifying the fact that proper understanding as well as desire to pay for the promoted technologies are missing in Russia. In terms of unique constraints, urgent for cleantech industry only, the author claims that currently discussed value and beliefs in the Russian market is one of these restraints. Due to the fact, that cleantech industry provides new technologies regardless of the business direction a company operates, it requires appropriate level of culture in the market, when both people and government understand importance of these innovative product and services. Otherwise, there are limited opportunities for Finnish cleantech enterprises to promote their products in the market, which is not well-prepared yet.

However, the author argues that not only the Soviet heritage has an impact on the Russian institutional environment, but also the way, how market-based economy was built two and a half decades ago. It is worth to admit that with absolutely ruined economy after the Soviet period collapse, Russia demonstrated relatively rapid change to market-based economy, especially in comparison with western countries, where private sector had longer period of formation. At the same time, when the country is ought to develop with lots of constraints in a very competitive global environment, every mistake could suppress economic development for a noticeable period. Even though Russia is now included in the block of developing countries, which validates its rapid economic growth, attractiveness for foreign investors and high potential progress, it has become obvious that Russian economy lags

behind, comparing with other emerging economies, which now is more attractive for foreign investment.

Based on the examined literature and results of the interviews, it is worth to state that there is the opinion among scholars, corroborated implicitly by the real cases, that rapid economic changes with unprecedented structural and economic transformation in the early 90th have influenced a lot current situation, when many gaps in legislation, governance along with mentality difference trigger high level of uncertainty for foreign companies, entering the market. Many fundamental principles such as civil laws, market economy rules, financial institutions, and so on had to be implemented in Russia within a limited amount of time.

It is reasonable to change the focus of discussion to the issue of formal institutions` influence and main findings analysis. Even though impact of informal institutions could be tightly connected with the historical background of the country, providing the coherent and complicated system for analysis, there is no room for excluding formal institutions` impact on the current performance of the cleantech companies in Russia. To begin with, it is interesting to note, that regardless of the current crisis in Russia and devastating effect of imposed sanctions, comments of managers, working in Finnish companies were mostly optimistic in terms of future plans and expectations. It means that even though the Russian economy is stagnating and there are “not so many opportunities to grow”, it is not the time to leave country as “many other companies do” (interview material). The stated comment was given by one of the multinational company managers and it could be perceived as the red line for the whole situation analysis. Attitude to the Russian market could be taken as commonly positive, with variable level of certainty among the companies.

It turned to be true that crisis has affected the ongoing operations and companies` presence in the Russian market. Having assumed that most of them are entered the market without solid investment for joint venture or subsidiaries creation, it was rather easy for companies to terminate or freeze sales or any other type of operation. It is fair to note that during the

research period, one of the biggest proportion of the time was devoted to case companies search. It was time-consuming and frustrating to receive a lot of rejections of the interview participation or even remained uninformed about a company willingness to answer interview questions. Having contacted with more than hundred companies, the author held only four interviews, which in fact less than expected, but at the same time received results provide many areas to analyze and trigger some recommendations, which could be given for both sides – Russian and Finnish.

Coming back to formal institutions impact, it is worth mentioning that political atmosphere does not significantly influence the performance of companies, not being mentioned as the constraint, especially comparing to informal institutions environment and cultural sensibility to offered product/services. Neither of managers commented on political atmosphere as a common reason to leave the market. What is more, bearing in mind rather positive attitude to the market, it is probable to state that there are other more important factors. Additionally, it is logical to assume that Finnish companies, which have already entered the market, prefer adaptation strategy to termination of activities.

In terms of government assistance it is important to mention that although state intervention into the business has commonly assessed as a restraint for the Russian market-based economy, inherited from the previous centrally planned economy, there are several business areas, where government support is perceived as a helping hand rather than disincentive. It relates to cleantech industry as one of the strategically important but still immature one in Russia. Having declared alternative energy sources as well as other cleantech businesses as important for the country, the government then has not actively supported foreign investment flow by either providing some bonuses for them or creating transparent business environment through modified legislation. Both of previously mentioned incentives – government support and clear regulations – are missing for the industry in Russia. If the former is commented as the usual one, the latter hinders the performance both small and big enterprises. One of them is ongoing negotiating adoption of one EU regulation for the Russian reality, which determines company's further expansion in

the market. Other companies noted that volatile regulation becomes especially annoying during the deadlock in the country. It is possible to state that volatile legislation relates not only to cleantech industry, but also to the whole legislation system, adopted in Russia. Even though, deep analysis of laws in different industries has not been done, there are several characteristics, which verify problems within the system, not the only part of it.

What is more important is that weak legal institutions in particular trigger two commonly accepted problems – corruption and bureaucracy. Even though the former has not been mentioned as a direct effect on performance, the author would suggest the opinion that due to its long history of existence along with visible measures to decrease corruption, this factor has been shifted to the shadow, i.e. it still affects companies, but in implicit way through partners network, for example. At the same time, the attitude of companies to the secondly mentioned factor – bureaucracy – is much more explicit. Most of the companies – regardless of their size – noted that bureaucracy has always been in the market, being constraint for development. The timeframe for getting all licenses and permits is still underestimated by Finnish companies, which get used to different approach and faster paperwork. Then, it is likely to imply that transaction cost increases for a company, which faces with longer period of formal registration in the market and etc. Generally speaking, the concept of regulatory quality impact on the firms' performance, posed by Chadee & Roxas (2013:23) has proved in the real cases. No matter how big the company is, complicated procedures and high level of bureaucracy discourage any enterprises to enter the market. Additionally, it creates negative reputation around the country image.

The author would claim that taking into account current economic situation in Russia, with still significantly decreasing interest even from the closest neighboring countries such as Finland, it is crucial to create all favorable conditions for foreign investors, especially in the strategically important industry as energy and clean technology. Otherwise any mistake could be even more detrimental for future development with the destroyed reputation. Without attractive business climate, the market will suffer from high uncertainty, weak formal institutions, and complicated informal rule and norms. If informal values require

longer time to be changed, formal regulations such as laws, procedures and so on could be forcefully implemented for the benefits of foreign companies.

Extremely meaningful value of attractive business climate creation within the country was widely accepted within both local and internationally presented views. Not only researchers, but also local experts, public institutions and some of the politics admit the fact that global operation could remarkably accelerate economic growth of the country. It is suggested that global competition and open market with differentiated demand, could trigger innovation growth as well as explore competitive advantages of the country and define target market for demanded products or services. At the same time, global operation requires transparency and international reputation as the country with steady domestic market, predicted inflation rate and reliable business environment, which enable foreign companies to set equity-based cooperation with the Russian market and heavily invest with guaranteed payback. What is more, whatever directions of the strategic development would be chosen by the state, all of them is tightly linked with the main one – evolving open business arena for both local enterprises and foreign partners. It is meaningless to develop only within domestic market, but international operation means adherence to globally accepted ‘rules of the game’.

There is another part of the framework, which should be discussed. Based on the analyzed literature, the author of the study decided to include interconnected link between institutional environment and companies` performance. In other words, there is the proposition that not only institutions determine companies` activities in the market, but companies themselves within the years and by providing advanced services and product could improve the institutional environment in the market. It could be done through, for example, re-training people how to work properly for the foreign company, encouraging government to improve legislation for the benefits of new technologies, sharing technologies, which enable impressive growth within the cleantech industry and etc. Having interviews results obtained, the author claims that such link is proved in the reality of the Russian market.

It could be confirmed with almost all case companies' experience. The first of them is aiming at EU regulation adoption for the Russian reality of recycling; the third case company was open to provide research and development services, which could potentially improve legal basis of the cleantech industry and even though the company was ought to close its representative office in Russia 1, 5 years ago, it is still ready for collaboration. The fourth company could improve working style and re-train employees to work according to Scandinavian countries approach along with provided valuable technologies. The second companies could incentive industrial development through provided energy efficient products and assist to Russian strategic goal achievement to decrease intensity in the energy sector in 40 % by 2020. Even though it has not been mentioned for all companies, but it is underlined issue that regardless of extra assistance in regulation, retraining and etc., all Finnish companies could provide advanced technologies in cleantech industry, which enable progressive speed for development inside the country. Then, having innovative industry in a sufficient level for Finnish companies' performance, it would be fair to assume positive shift in institutional environment of the country.

In order to draw the intermediate line for the discussed conclusion, it is worth to state captured difference between two blocks of companies in terms of institutional environment influence on them. Due to the fact that each section, mentioned above, was discussed from the perspective of both companies, it is fair to provide general points about similarities and differences. Then, based on the obtained experience and results, the author would suggest that there is albeit not quantitatively but qualitatively divergence in perception of the market by small and big companies. It means that the bigger company is the more particularities of the market become available. Moreover, experience of the market performance has a notable value in terms of doing business procedures, revealing more directions to grow for companies and avoid institutional immaturity of the Russian market. The most visible example was given in the personal connections part of the conclusion, where different approaches to informal contacts are illustrated. If smaller companies could be leading by the obsession to get these contacts and reach "right person", experienced

Finnish companies in the market would explore the way, how these contacts should be executed in effective way. As it was mentioned by several managers, the average period of time for the Russian market, which could be taken as a sufficient for Finnish companies, is around 10 years. Then, it is reliable to assume that companies, which have been presented in the market for 4 years, have not reached the minimum requirement of time for sufficient experience and, consequently, have not explored all institutional effects on performance. Being more precise, it is relevant to claim that not only the size of the company matters, but also the experience of operation in the Russian market.

One more modification of the study model could be added after results analysis and empirical part done. It pertains to corporate governance concept. It came true that this issue could be meaningfully applied only for companies, involved in equity-shared collaboration. Broader view to the concept was not possible to apply in the study due to the fact that investment activity is limited in general and especially nowadays in Russia. Then, companies prefer to establish representative or sales office in Russia or fully-owned by Finnish side subsidiary, which does not require any shareholders relations. At the same time, the author does not find corporate governance absolutely invaluable concept for the Russian environment. Some troubles could be caused either by the chosen industry (cleantech), which is rather new in Russia and that is why not so many companies are attracted yet, or crisis situation, when companies are afraid of giving comments about the current operation and future plans due to high volatility in the market and the requirement of time to analyze pros and cons of the Russian market.

It is important to emphasize the personal view of the author with referencing to the theory about crisis period and the way how to perceive it. It is difficult to overestimate the fact that from the time of Soviet Union breakup, economy of Russia has not been functioning without crisis break for at least decade, being interrupted by the crisis in 1998, 2009 and in the nowadays. Consequently, it is clear that strategically long-term oriented governance approaches are questionable to be implemented in such type of environment. At the same time, crisis could be set as an opportunity for improvement and changes. From this

perspective recession is even better than stagnation as it forces changes, which are usually well-prepared due to the high cost of mistakes. In terms of institutional view, crisis is defined as a period, when decision-makers suffer from the uncertainty, caused by weak institutions, and then have to change it any way so that they could overcome the crisis (Marinova, Child & Marinov 2012: 237). This leads to movement and shift in institutional framework. Having negative effect for the economy in a period of time, crisis triggers further development and reveals hidden opportunities. Such view could be considered by both sides of the cooperation.

6.2. Limitations and further research directions

Even though each study is ceased to exist, it is impossible to cover all possible angles of the chosen topic. First of all, institutional environment in Russia was analyzed only for the companies, related to one industry. It means that different results could be obtained in other business areas, which are more mature in Russia than cleaning technologies nowadays. Consequently, Finnish companies in different industries could be encouraged to invest in the market and establish solid way of operation such as joint-ventures or wholly owned subsidiaries with manufacturing site, located also in Russia. In this case, the concept of foreign direct investment (FDI) will be open to analyze. It is worth to note that FDI inflow to the local economy is the rate, which are used for economic development evaluation with the higher investment inflow rate, the more attractive the economy is. Then, more narrow analysis of the institutional environment effect to ownership strategy or entry-mode choice could be conducted.

In terms of cleantech industry, the author admits the fact that there are left opportunities to make the research for separately chosen part of the cleantech – either alternative sources of energy or energy efficient technologies etc, though the current research made the general overview of the industry. Moreover, there were not strict limitations for the choice of case companies made, except industry relevance. It was caused by limited availability of the

company in the particular period of time, though business environment could be different with several years and then companies could be analyzed separately – MNEs, SMEs, new entrants and experienced enterprises. Each of the above mentioned research could provide valuable and more specific results. It is also reliable to state that some information has remained unavailable for the analysis since managers could have internal policy of nondisclosure, which is related to confidential information as some figures or probably concrete future plans.

There is another issue, which is resulted from the previously mentioned limitations of the study. It relates to the generalization of the obtained results. The author of the research assumes that received findings can hardly be generalized due to limited amount of case companies for generalization goals. Coming back to the methodological part of the thesis, it is suitable to remind that quantitative studies are more applicable for general observation of the concept than qualitative one. Thus, as the latter method was used for the study, the level of general results receiving was initially lower.

Last but not least limitation pertains to theoretical background. Institutional environment was analyzed as a system in the study, though there is a room for further investigation, related to each specific block of institutions: formal and informal one with relative elements. As there are deep roots between current institutions and historical background in Russia, then, each factor could be considered in details in the future researches. Moreover, it is worth to note that the value of potential researches about the Russian market would be still high in the future, since Russia has been presenting the interesting case for both researchers and business for a long time due to combining factors of attractive, but unpredictable market.

6.3. Managerial implication

In order to provide worth conclusion of the research, the author would prefer providing list of recommendations, applicable to those Finnish companies in cleantech industry, which

will enter the market in the future as well as for newly entrance since some changes could be added. The list of recommendations with brief clarification is provided below.

- First of all, deep market research is recommended before entering the market. It could reduce initial uncertainty and prevent companies from unfavorable time and money costs;
- Russian people, available inside the Finnish market, would be the best alternative for companies, aiming at the Russian market. Owing to their origin and obtained skills of Nordic countries working approach, these people could be priceless specialists for either market research objectives or further expansion in the Russian market;
- Based on the industry overview, provided in the theoretical part of the study, potentially higher demand for energy efficiency and alternative energy sources was revealed for remote regions in Russia. Consequently, the author would recommend shifting focus from the central regions – Moscow and St. Petersburg only – to more regionally-oriented strategy. Moreover, some benefits could be provided for foreign companies in these regions, which are usually hidden in the central part of Russia due to lower demand for clean technologies;
- For companies, which have already entered the market, but struggling currently due to the crisis, the author would suggest to weight costs of staying in the market with potential expenditures for recovering process in the future. In other words, it is complicated to enter the Russian market and especially to settle down there. So, even in the crisis situation, it could be more feasible to adapt to changes for a while, than terminate performance in order to come back later;
- For smaller companies, in order to decrease pressure of weak formal institutions and required cost of entering the market, the author would recommend combining efforts within the cleantech cluster, which would become preferable for both Finnish companies and Russian market. The former would enter the market faster with shared expenditures among several companies, while the latter receives advanced technologies and reliable foreign partner;

For the Russian economy, the current research could verify the fact that there are several new industries have been developing in the globe within the recent years. These industries are related to new era of energy with alternative sources of energy dominance and energy efficiency technologies. Then, the demand for alternative energy would sooner or later replace traditional energy sources and, consequently, could significantly affect the economic development of the country, which is still dependent on the thermal sources - oil, gas and coal. Therefore, it is assumed that in order to save competitive position in the world, the Russian Federation should draw attention to perspective industry such as cleantech.

Due to the fact that this business is rather new in Russian and bearing in mind considerable progress, which has already been achieved by several countries in Europe, it is worth to suggest tight collaboration with foreign companies. It accelerates development of clean technologies in Russia and enables positive image formation of the country in the world. Moreover, having such progressive neighboring country as Finland, there is the ideal opportunity opened for the Russian Federation to cooperate with the Finnish companies for the benefits of both sides. The requirement of investment in several strategically important areas has been noted and proved in the study, which provides new knowledge not only for the Finnish side, but also for the Russian one.

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APPENDIX 1 INTERVIEWEES

Mr Airaksinen, Harri (2015). Vice President, Finland, VTT. Interview 6. May, Perm'.

Mr Forsbäck, Magnus (2015). General Director, Finland, Citec Engineering Russia LLC. Interview 7. May, Perm'.

Mrs Planson, Yana (2015). Sales engineer, Finland, Merus Power Dynamics Oy. Interview 1. May, Perm'.

Mr Pudas, Jarmo (2015). Director and Business Development Manager, Finland, Akkuser Ltd. Interview 23. April, Vaasa.

APPENDIX 2 INTERVIEW QUESTIONS

1. Don't you mind if this interview will be recorded?
2. Can I mention your name and position in my Master's thesis or you would like to remain anonymous?

Part 1. General questions about experience and impression about Russian market and doing business there.

How many years of experience in partnership with Russian market you have? Do you have continuous/uninterrupted partnership or not?

What Russian market means for your company? Why did you choose Russian market among others? Did you make extensive market research before entering the market?

What type of projects do you have in Russia? (Subsidiary, joint venture, turnkey projects, exporting).

In what regions in Russia do you operate/ have a sale office/ representative etc.? Do you find significant difference in operation, depending on the region?

Part 2. Formal institutions

Political factors

How could you comment on the political atmosphere in the country? Has it changed over the years? Does experience in the country gradually simplify the operation there, i.e. has operation become easier with the years?

Did governmental action hinder or incentive establishing business in the market?

Have you even received any governmental assistance in leading projects in Russia?

- If yes, in what way was it organized? Bonuses in a way of tax reduction, tax holidays, specially built infrastructure – roads for transportation issues, electricity transmission line nearby the operation site etc.?
- If no, did you struggle without it or not?

Legal and administrative factors

How could you comment on the legal environment in Russia?

Was it easy to find and follow the rules, which determine foreign company operation in Russia?

What do you think about implementation of new regulation and laws?

- Does it reach you usually in time?
- Do you have enough time to become aware and implement it to the company reality?
- Do new regulations incentive or complicate the operation in Russia?

Have you faced with the corruption issues and if yes, how did your company dealt with that?

How could you estimate the bureaucracy in the country? Did you need a long period of time to set your company in Russia in terms of paper work and required documentation?

How could you estimate external institutions in the country, which supposed to help foreign investors (different consultant agencies; accelerated and simplified paper process)?

Part 3. Informal institutions

Do you estimate Finland and Russia as two culturally and mentality different countries? What is the most visible difference for you?

- in ordinary communication with Russian citizens
- within a business framework

Do you have extensive network in Russian market, consisting of different companies, agencies, personal relations etc?

- If yes, was it time-consuming to build trustful relationship?
- If no, what is the main reason, which hinders building the network in Russia?

What do you think about informal relations – do they help or have no or little impact on operation in Russian market?

Have you even faced with the problem of information asymmetry between your company awareness and information, which local partners potentially possess? Were there some unfavorable details been revealed during the collaboration, which had a significant influence on the current operation?

Does it usually difficult to find trustful source of information? Does information about market etc. usually proved in the reality?

Part 4. Corporate governance

Do you think that corporate governance differs between Finnish and Russian companies? In what way? Have you found any changes in corporate governance in Russia over the year of communication?

Do you find any links between corporate governance and historical background of a country? If yes, could you link features of corporate governance in Russian companies nowadays with Soviet heritage?

Summing up question: what is your future plans and expectation, related to the Russian market?